

Innovation Leadership: The Role of Governance in Value Creation

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We have experienced and witnessed generations of geniuses and inspiring entrepreneurs take chances—fail at some, make mistakes, and in creation, think up new things and make them happen.

We see many diverse organizations be innovative and push the envelope. *Forbes* notes that the top 10 World's Most Innovative Companies in 2017 ranged from biotechnology to household products and specialty chemicals to application software. Topping the list were Salesforce, Tesla, and Amazon. Conspicuously absent from the list: healthcare. While the *Forbes* list featured legacy and emerging industries alike, none were in a core industry like healthcare that faces continuous growth in importance and need as the global population ages. Currently external factors and essential need make healthcare ripe for innovation, but hospitals and health systems are not leading the charge.

This is not to say that hospitals and health systems are ignoring innovation; it is more a matter of degree and scope of innovation. In a report in *Healthcare IT News*, it was noted that, "Seventy-five percent of hospital executives believe that *digital innovation* is important and, among those with 400 or more beds, the same percentage is gearing up to create an innovation center, if they have not already established one."¹ The article went on to note that the five main areas in which hospitals are innovating are:

1. Patient-generated data and customized services
2. Network utilization and management
3. Referral management and in-network retention
4. Social community support
5. Convenient patient access—including telemedicine

But is this focus more about evolution of existing technologies than a revolution to reinvent how business is done? In an article in *Harvard Business Review*, Gary Pisano writes about how companies have a choice about balancing technological innovation and business model innovation.² Pisano

suggests that when creating an innovation strategy, leaders need to ask two questions:

- Does the innovation require a new business model or leverage an existing one?
- Does the innovation require either new technical competencies or leverage existing technical competencies in the organization?

Naturally, innovations that require new business models or new technical competencies will require significantly more time and energy to execute, and will involve a higher level of risk. Good governance does not merely include thinking about the innovation itself, but good strategy involves considering additional risk factors for innovation including whether or not this innovation has high levels of risk by needing new competencies and/or business models. Good governance will likely include a balanced "portfolio" of aggressive, high-risk innovation, as well as lower-risk innovations that will expand or transform current systems and processes.

Becker's Hospital Review featured Michael Dowling, President and CEO of Northwell Health, who explained the looming threat on the horizon for hospitals by saying, "In order to keep pace with newly formed organizations and partnerships, hospitals and health systems need to innovate."³ He referred to the CVS-Aetna and Optum-Davita deals and the intended disruption of the industry by Google, Amazon, and IBM Watson.

Long gone are the days when hospital governance was limited to financial discretion and corporate oversight to remain financially viable. As healthcare organizations progress down the road, boards must now wrestle with how to keep the financial

Key Board Takeaways

In today's healthcare industry it is critical that boards push past routine business innovation and consider more dramatic and radical changes that will allow their organizations to thrive now and in the future. The board plays an important role in stimulating and encouraging innovation throughout the organization. As boards consider their innovation profile by defining innovation, the tolerance level for risk, and strategic partnerships, they should consider the following:

- Innovation is not a nice to have, but a survival tactic that needs to be integrated into the DNA of the organization.
- Board makeup matters—seek after proven change agents and innovators to compose the board.
- Don't confuse new technology for innovation. True innovation is about a new way of thinking with demonstrated value.
- Innovation will look different based on organization type. Rural hospitals can pull together resources innovatively, health systems can flex their reach, and independent hospitals can strive to build partnerships to find solutions that are all innovatively building toward fiduciary responsibility and sustainability.

wheels of the bus running forward, but also consider how they are powering the vehicle. As the rest of the world is starting to run on solar power, healthcare cannot continue to run on gasoline, so to speak. Healthcare boards must revisit all they know and do regarding innovation to not just survive but thrive in the future.

"There is a way to do it better—find it."

—Thomas Edison

Boards, Governance, and Innovation

We all understand that the role of the board is to govern and help to keep the wheels on the bus, to operate within the guardrails; and the role of staff is to plan, strategize and execute, and drive the bus without taking it over the cliff. Effective governance

1 Tom Sullivan, "Here's Where Hospitals Are Investing in Innovation Today," *Healthcare IT News*, September 21, 2017.

2 Gary Pisano, "You Need an Innovation Strategy," *Harvard Business Review*, June 2015.

3 Michael J. Dowling, "Michael Dowling: 4 Most Important Healthcare Trends in 2018," *Becker's Hospital Review*, December 18, 2017.

of innovation needs to have a degree of harmony and aligned purpose combined with a transparent diligence to ensure that rules and guidelines are followed.

However, in the healthcare industry, an environment where disruption can threaten the very existence of traditional, legacy businesses, we must consider pushing past routine business innovation to consider more dramatic and radical changes to ensure eventual migration to a more sustainable business model. The board needs to embrace change, innovation, and creativity—and have the breadth of experience and competencies to understand and guide such potentially dramatic shifts.

To understand the role of the board in stimulating and encouraging innovation, we are taking a look at four key questions regarding innovation in healthcare governance:

- What is innovation?
- Why innovation and why now?
- How do you build innovation into governance practices?
- How do you sustain innovation long term?

What Is Innovation?

First, let's refine the definition of innovation as it applies to healthcare today. According to the Department of Commerce,⁴ innovation and how it should be measured is: "The design, invention, development, and/or implementation of new or altered products, services, processes, systems, organizational structures, or business models for the purpose of *creating new value* for the customers and financial returns for the firm."

This definition of innovation emphasizes *value creation*. Value creation goes way beyond the optimization or even the extension of existing processes or procedures or ways of doing business as usual. Efficiency is a good goal; effectiveness is a desired outcome. But these conditions do not necessarily mean that true innovation has occurred.

Jack Hughes wrote in a *Harvard Business Review* article:⁵

"Organizations have nearly perfected implementing the industrial model of managing work—the effort applied toward completing a task. For individuals, this model ensures that we



know what we're supposed to do each day. For organizations, it guarantees predictability and efficiency. The problem with the model is that work is becoming commoditized at an increasing rate, extending beyond manual tasks into knowledge work, as data entry, purchasing, billing, payroll, and similar responsibilities become automated. If your organization draws value from optimizing repetitive work, you'll find that it will be increasingly difficult to extract that value."

Dan Beckham, President of The Beckham Co., also notes there is a difference between invention and innovation and why it is important to differentiate between these two: "Innovation is doing something differently to generate significantly more value. An invention is not an innovation. It becomes an innovation only when it is applied in such a way as to generate significant *new value*."⁶

So how does this show up in today's healthcare environment? We see hospitals and health systems moving to find ways to add more value in their innovative efforts. The concept of hospitals and health systems investing in incubators, labs, innovation offices, etc. has become more commonplace. Examples of this include Akron (Ohio) Children's Hospital's Center for Patient Experience Innovation (Akron, OH), The Innovation Institute (La Palma, CA), and New York-Presbyterian Hospital's (NYP) Innovation Center (New York, NY). In some cases, hospitals typically invest as some portion of owner or member in the entity and the entity itself functions

as a friendly "Shark Tank" for healthcare inventors. These two marry innovation with invention. They extract the value from invention leading to true innovation. This value is realized as hospitals investing in a new revenue stream and diversifying financial approaches, as well as fostering inventions that when they come to fruition will become innovative technologies demonstrating value.

We have seen inspiring inventions in healthcare over the past 50 years. Some of the more recent inventions include bacteria-killing light bulbs, mini pacemakers, augmented reality, units that can test for strokes, artificial retinas, and robot nurse assistants. Yet truly innovative hospitals and health systems are identifying ways to drive maximum value from these ideas by getting those inventions to a greater market outside their walls for additional revenue streams.

"We cannot solve our problems with the same thinking we used when we created them."

—Albert Einstein

Why Innovation and Why Now?

The words "hospital" and "viability" are frequently heard in the same sentence. How do we know we're on the precipice of change and everyone needs to innovate to stay viable? Because change and innovation are becoming the new norm—players who have historically led the healthcare industry are finding themselves in dire financial

4 *Innovation Measurement: Tracking the State of Innovation in the American Economy*, A Report to the Secretary of Commerce by the Advisory Committee on Measuring Innovation in the 21st-Century Economy, January 2008.

5 Jack Hughes, "What Value Creation Will Look Like in the Future," *Harvard Business Review*, May 17, 2013.

6 Dan Beckham, "How to Foster Innovation in Health Care Delivery," *H&HN*, October 19, 2015.

situations, and movers and shakers outside the industry are coming in to change things. What has worked in the past will no longer be viable in the future.

Innovative or outside-the-box thinking used to be considered a nicety and potentially risky behavior for boards. But in this day and age, for small to mid-size hospitals and health systems, *not* having conversations about financial diversification and how to innovate revenue streams is quickly becoming the risky behavior.

External Players Are Coming in to Shake Things Up

For example, we see Amazon, Berkshire Hathaway, and JPMorgan Chase combining forces to form an independent healthcare company. An article in *The New York Times* explains their motives for playing in the healthcare space: “The alliance was a sign of just how frustrated American businesses are with the state of the nation’s healthcare system and the rapidly spiraling cost of medical treatment. It also caused further turmoil in an industry reeling from attempts by new players to attack a notoriously inefficient, intractable web of doctors, hospitals, insurers, and pharmaceutical companies.”⁷

As external players enter the healthcare arena they will see old problems in new ways and find solutions through unique technologies and tools they bring from their experience outside of healthcare. Healthcare will need to find creative ways to innovate against or partner with these outsiders.

Changing Consumer Profiles and Expectations

As millennials enter an age where they will be more influential consumers of healthcare (with their own aging, as well as their children’s needs), their definition of customer service, patient care, and access to records is changing the landscape of a minimal standard of care. Telemedicine, easy access to medical records, online scheduling, etc. will all become industry standards vs. market differentiators as millennials continue to become more active healthcare consumers.

One such example of this shift in mindset to innovate comes from the Cleveland

Clinic. CEO Dr. Toby Cosgrove describes the change in attitudes about patient medical records as such, “...we opened our medical records—what’s often called ‘the chart’—to patients any time they want to see their own charts. The charts really aren’t the hospital’s; they belong to the patients, and we think it’s their right to have that information.” Essentially millennials see their patient data as theirs, not the hospital’s, and Cleveland Clinic has evolved and pivoted to this consumer mindset.

Innovation is not just about a new method, idea, or product—it’s about a revolution or a metamorphosis in order to survive the future.

“I could either watch it happen or be part of it.”

—Elon Musk

How Do You Build Innovation into Governance Practices?

So now that we assume that the value creation from innovation is both a critical defense to disrupters and an important offense to ensure survival, we need to establish how to build innovation into governance practices. Let’s look at how you build the board of the future and the expected competencies and personal skills that are necessary to be successful in the future.



Board Composition and Scope of Expertise

Good governance is only possible when the board consists of a diverse group of people with different points of view and backgrounds. In the current healthcare environment, it is critical for boards to have a wide range of expertise in various topics, including technology, quality, social media, finance, environmental safety, clinical expertise, human capital/organizational development, and hospital administration.⁸

Boards need to take a look at their areas of expertise and identify the holes that might currently exist. After identifying those gaps, a strategy should be developed to fill those expertise gaps when replacing board members, or by augmenting the board by bringing in subject matter experts to help advise the board.

Personal Skills

In addition to subject matter expertise, there are some behavioral competencies that should be considered for the selection of board members. When we think of needed competencies, we frequently consider things like good decision making, strong communicators, and analytical thinkers. But as innovation becomes a driver of governance, those competencies need to be refined and redefined.

A list of more refined competencies necessary during times of disruption and change to consider include:⁹

- *Leapfrogging mindset*: creating or doing something radically new or different that produces a significant leap forward
- *Boundary pushing*: broadening mindsets and problem solving, as well as pushing the limits of the team in which they serve
- *Data-intuition integration*: the ability to supplement hard data with gut instincts or loosely related data when no such hard data exists
- *Adaptive planning*: the ability to manage uncertainty and plan to drive results, all while modifying assumptions and approaches accordingly since periods of innovation are also clouded with uncertainty
- *Savoring surprise*: the ability to revel in and adapt to surprises—both pleasant and unpleasant

7 Nick Wingfield, Katie Thomas, and Reed Abelson, “Amazon, Berkshire Hathaway, and JPMorgan Team Up to Try to Disrupt Health Care,” *The New York Times*, January 30, 2018.

8 Carol Geffner, “Trustees Playing Game with Higher Stakes,” *Trustee*, September 12, 2016.

9 Soren Kaplan, “5 Critical Competencies for Disruptive Innovation and Change,” Excerpt from *Leapfrogging: Harness the Power of Surprise for Business Breakthroughs*, August 2012.

As a matter of course, we do not seek these skills and competencies on boards. Many traditional, conservative boards believe that these individuals and/or their skill sets will be disruptive and dilutive to their interests of control, fiduciary responsibility, and “keeping the wheels on the bus.”

We challenge that thinking to say that without disruptive, innovative thinking in today’s world, organizations will collapse inward amongst themselves through ignorance of competitive threats or will simply disappear through neglect. In healthcare, some organizations that are not innovating are merging to survive. And many are simply out of business.

Innovation is like oxygen—it is necessary to keep from becoming stagnant and irrelevant. Boards that do not have the aforementioned skills and competencies engrained in their definition of successful board members will have difficulty moving forward.

“Innovation distinguishes between a leader and a follower.”
—Steve Jobs

How Do You Sustain Innovation Long Term?

According to Peyman Zand, Partner at Pivot Point Consulting, there are three ways to advance innovation in healthcare:¹⁰

- A culture that promotes the free exchange of ideas
- An emphasis on internal cross-functional collaboration
- An openness to external expertise



As the walls of financial pressures and prudence seems to sap the time and mental energy of boards, it is important that innovation is not simply a hopeful action. Dedicated time needs to be set aside to determine a strategy. Boards must find ways to implement these mechanisms to continually build innovation in their organizations. Time must be reserved on the agenda regularly to discuss innovation strategy and practices.

Some practical ways that boards can be engaged in innovation include:

- Build behavioral definitions of what innovation in governance looks like—how does it show up in governance at your organization?
- Assign board roles and responsibilities that integrate innovative competencies.
- Set aside funding for innovation—true innovation needs a defined budget and capacity to help drive, support, and sustain these efforts.
- Build an innovation committee, which helps to ideate new concepts and ideas and supports the creation of new initiatives.
- Define innovation goals for top leaders; if you’re going to cook innovation into the DNA of the organizational cake, it’s important to articulate expectations of top leaders within the organization. These criteria can also be used to measure annual performance, and as selection criteria for top leaders in the organization.

In addition to building practices, true innovation comes from assessment and measuring progress. There are two ways to assess innovation on your board:

- **Behavioral:** Are board members individually, as well as the board as a whole, assessed on a defined set of criteria and competencies to measure effective performance? If not, this is a crucial board practice that should be implemented.
- **Inventory:** When vacancies on the board arise, it is essential that you know the “state of the state” of innovation on your board. Are you regularly assessing the critical areas addressed above (economic perspective, technology, quality, clinical expertise, environmental safety, human capital/organizational development, social media, and hospital

administration) to see where you might have overload on knowledge and where you might be lacking?

The flip side of innovation feels like risk. But to minimize this, good governance allows experimentation and flexibility with managed and measured risk. The measured part of risk is managed by measurement of outcomes. Cleveland Clinic, a leading innovator, argues that measurement and outcomes are the two guardrails used to help mitigate some of the risk in an innovative environment.

Summary and Call to Action

As healthcare organizations move toward taking action on innovation in governance practices, there are several things to consider:

1. Innovation is not a nice to have, but a survival tactic that needs to be integrated into the DNA of the organization.
2. Board makeup matters—seek after proven change agents and innovators to compose the board.
3. Be willing to disrupt the business to move forward rather than stay stuck in “business as usual.”
4. Don’t confuse new technology for innovation. True innovation is about a new way of thinking with demonstrated value.
5. Don’t rest on your successes. Healthcare and the world around it is changing at a breakneck pace. Today’s successes may not sustain in the future. To stay ahead of the curve, ensure your eye is always on tomorrow’s tomorrow.

Governance in innovation was once a luxury, a nicety, but as the landscape of healthcare continues to change, innovation will become the fuel of financial viability and success. Good governance will not only include consideration, but implementation and regular practice of strong innovative practices in the future. ●

The Governance Institute thanks Jim Finkelstein, President and CEO, and Sheila Repeta, Senior Consultant, of FutureSense 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.

¹⁰ Peyman Zand, “Advancing Innovation in Health Care,” *H&HN*, September 27, 2017.