



Creating the Practice of Continuous Innovation

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Introduction: The Need to Build Competence in Innovation

Healthcare is ripe for disruption, and the leaders of health systems need to challenge and change conventional orthodoxies. More importantly, they need to build competence inside their organizations that allow for continuous innovation. Innovation is not the “stuff of mad geniuses,” but rather a competence that can be learned. The scarce resource in innovation is not creativity, but rather discipline.

Most organizations do not know how to innovate. So-called “innovation teams” rarely focus on the right challenges, and often compound this problem by using weak processes, such as open-ended, unfocused brainstorming sessions. In many instances, innovation activities become hindered due to artificial constraints, such as a refusal to absorb initial losses and minimum ROI requirements. By contrast, effective innovation teams focus on answering two questions:

- What does the organization need?
- How can it be built?

To learn to innovate, one must first recognize the two distinct types of innovation:

- **Improving the known:** Organizations must be good at routine improvement of existing products, services, and processes, using established methods such as total quality management, Lean, value engineering, materials science, and complexity management. If not, profitable businesses will get picked off by savvy competitors. This “simple” innovation represents over 90 percent of all innovation initiatives for most organizations.



- **Inventing the new:** Disruptive innovation represents only about 5 to 8 percent of all innovation activities. This type of work is too exhausting to engage in more frequently, even for companies like Facebook, Apple, Google, and Amazon that excel in this area.

Importantly, different processes are required to succeed with each type of innovation. Consequently, leaders must be conscious, deliberative, and systematic about having an approach for each.

Four Steps for Learning How to Innovate

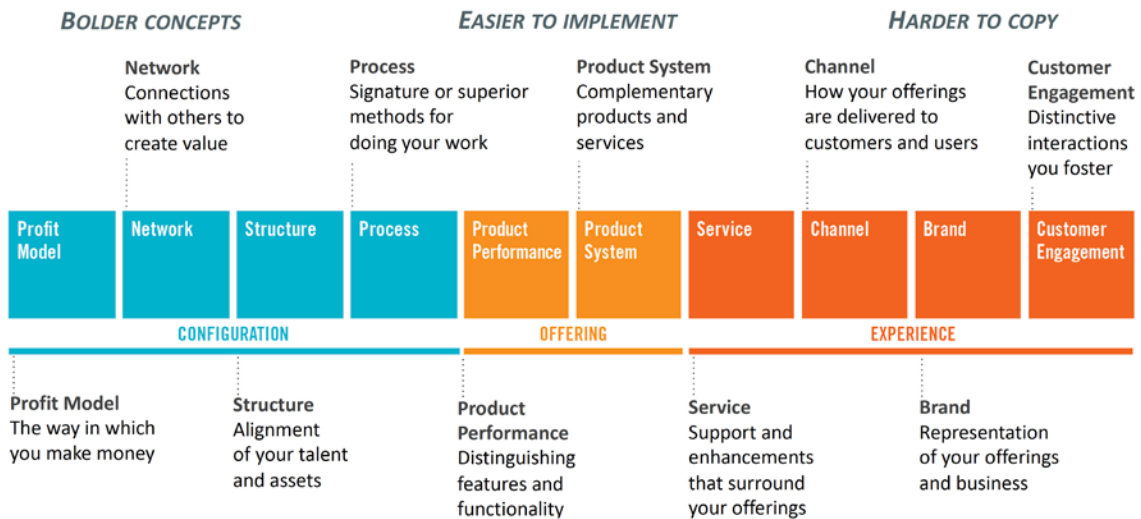
Mr. Keeley's book, *Ten Types of Innovation: The Discipline of Building Breakthroughs*, is based on more than \$6.8 million in research on innovation effectiveness, including how to create successful innovations and become competent in innovation. The book helps teams to substitute logic instead of lore and to move beyond myths to proven methods and tactics that work. It lays out a four-step process for developing competence in innovation.

Step 1: Innovate in the Right Ways

As demonstrated in **Exhibit 1**, innovations throughout history fall into 10 types that cluster into three categories (configuration, offering, and experience) that, in turn, stem from three types of training. Configuration tends to be taught in business schools, offering in engineering schools, and experience in design schools. Consequently, innovating effectively requires a true team approach, with team members trained in these different disciplines.

Exhibit 1: Ten Types of Innovation

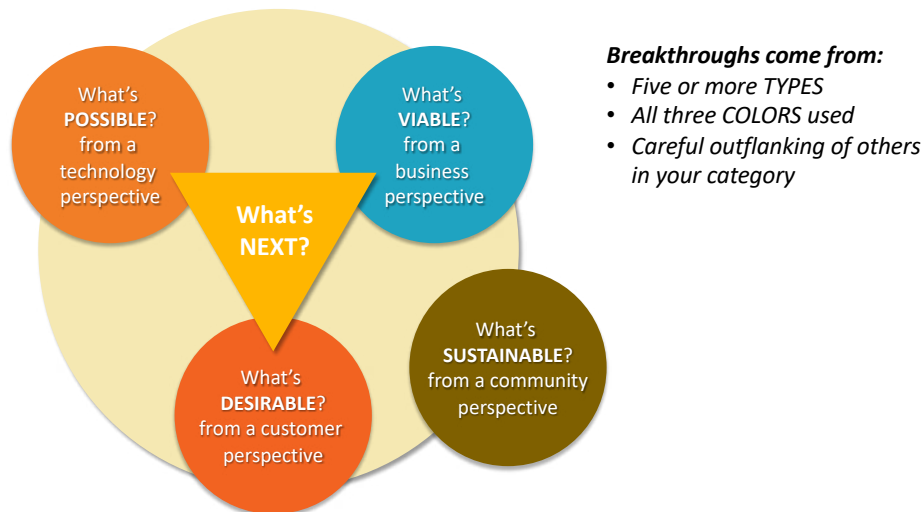
Successful innovators innovate beyond products and integrate 5+ types...



True breakthrough innovations, moreover, combine five or more types of innovation and involve all three clusters. As illustrated in **Exhibit 2**, they combine what's possible from a technology perspective, viable from a business perspective, desirable from a customer's perspective, and sustainable from a community perspective.

Exhibit 2: Building Breakthroughs

Balanced breakthroughs: a simplified model for developing sophisticated innovations



In addition, most breakthrough disruptions involve bilateral business ecosystems. Uber's success, for example, depends on securing the loyalty of both drivers and customers. Hospitals have been operating in such an ecosystem for years, needing the loyalty of both patients and physicians. Consequently, hospital and health system leaders find themselves in the perfect place to develop a bilateral business ecosystem through bold ideas that are easy to implement yet hard to copy. Research suggests that the biggest and fastest-growing innovations will share the following characteristics:

- **Culturally cool:** People talk about the innovations, finding them able to solve important problems while still fun to use.
- **Technically elegant:** The most successful innovations are surprisingly simple and elegant from a technological perspective. For example, a Tesla car has two electric engines that together have only 40 parts. By contrast, the typical internal combustion engine has 20,000 parts. Longer term, the economics will favor Tesla, which can generate huge margins on each car sold.
- **Fair business model:** Innovations will not succeed unless customers perceive the underlying business model to be fair.

Few healthcare systems today are perceived as being culturally cool, technically elegant, or fair with respect to the underlying business model. That said, there may be opportunities to work toward breakthrough innovations in some aspects of the healthcare business, such as wellness centers and chronic disease programs. More importantly, if health systems do not act in these areas, others will disrupt the status quo.

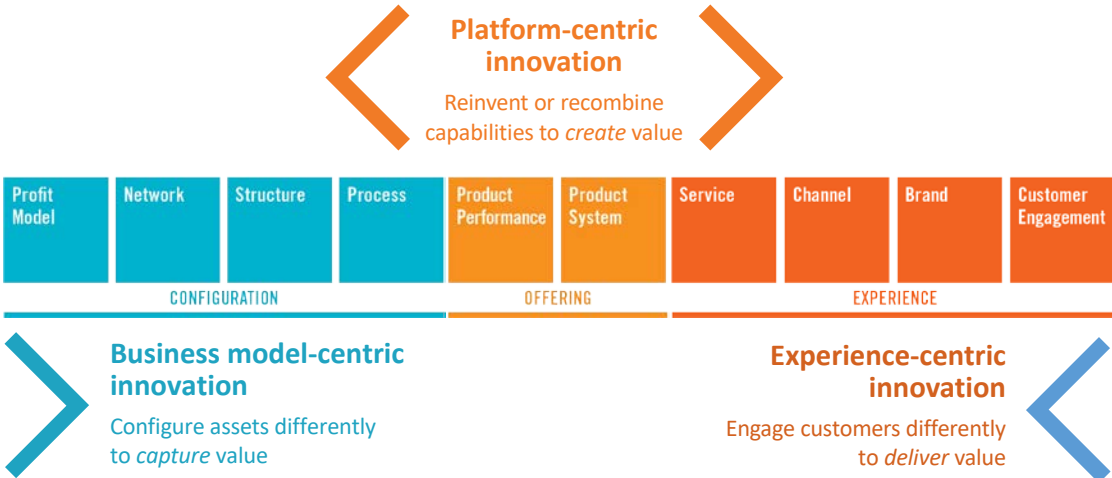
Airbnb is a great case study of a company that knows how to innovate in the right way. Founded in 2008, Airbnb took just eight years to become bigger than the three largest global hotel chains combined. The company’s tremendous success revolves around one big but simple idea—a platform that allows strangers to trust one another. Peer-to-peer rentals almost always make both parties better off, as long as they can trust one another. The two founders of Airbnb came up with the concept when they were trying to travel across the country without money. After running out of friends to stay with during the trip, they conceived of creating a world where people are willing to share valuable assets (i.e., their homes) with complete strangers. Combining five types of innovation, Airbnb owns no rooms and has few assets in general, consisting primarily of 57 technological applications, only seven of which have any proprietary elements. What the founders of Airbnb understood was how to innovate. They focused on a single big idea that was relatively easy to implement, yet ultimately difficult for others to copy due to large first-mover advantages, particularly once customer trust and loyalty had been built.

Step 2: Innovate on the Right Things

Innovation is rarely bold or effective. Yet it needs to be both. Modern innovation is more about elegant integration than invention. The biggest innovations tend to be asset-light, fast, smart, connected, distributed, decentralized, shared, and open. Platforms matter a great deal to success. The most important innovations cut across both companies and markets, using platforms to amplify ROI. The least valuable business-to-consumer (B2C) platforms today are worth \$10 billion, with the most valuable being worth \$40 billion. On the business-to-business (B2B) side, the similar

Exhibit 3: Innovation Effectiveness

Balanced breakthroughs use five or more types of innovation—and all three colors



range is \$12 billion to \$400 billion. As shown in **Exhibit 3**, platform-centric innovations tend to reinvent or recombine capabilities to create value.

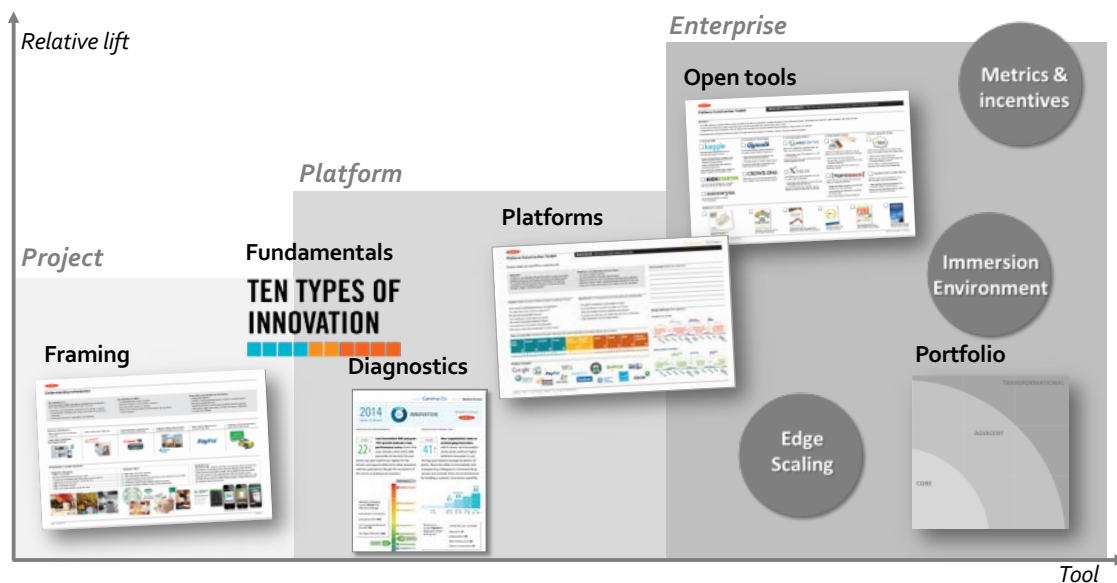
Examples of this type of platform-centric innovation include the following:

- **IBM Watson:** This platform combines seven types of innovation to tackle complex problems by bringing cognitive computing to the field of medicine. Watson reads 200 times more information in a day than a doctor can read in a year.
- **Google TensorFlow:** This platform combines five types of innovation to allow for deep learning through anticipatory computing. Examples include real-time language translation through the phone camera and real-time wayfinding for patients coming to appointments at hospitals.
- **Humana Vitality:** This platform combines seven types of innovation to provide consumers with an end-to-end continuum of wellness solutions using an incentive-based health enhancement program.
- **Iora Health:** This platform combines eight types of innovation to improve care delivery by offering patients intelligent emotional support and attention.

Step 3: Innovate with the Right Tools

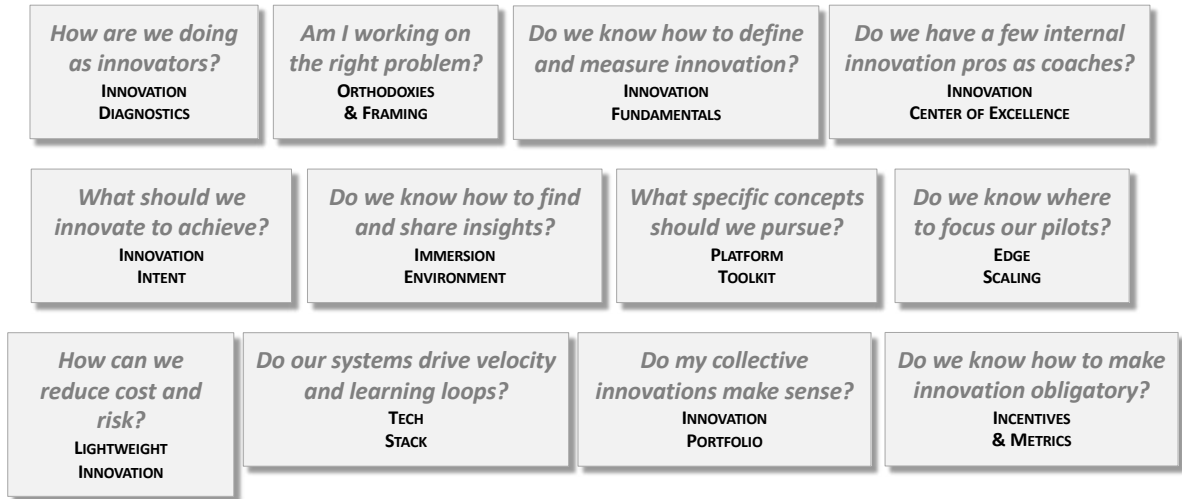
Innovation gets much easier when the tradecraft is matched to the task. The founders of Airbnb understood how to employ modern innovation tradecraft that dramatically improves the return on the innovation development process. As outlined in **Exhibit 4**, this approach includes tools to get the framing correct (i.e., working on the right things), diagnostic tools that analyze systems in weeks rather than months, scorecards that measure capabilities and performance, platforms that focus teams on a few big ideas (essentially the opposite of brainstorming), open tools that dramatically reduce development costs, small pilot tests in isolated areas that do not affect the rest of the business (also known as “edge scaling”), and liberal use of metrics and incentives that make it obligatory for leaders and those on the front lines to sponsor and engage in

Exhibit 4: Modern Innovation Tradecraft Dramatically Improves ROI



innovation initiatives. The most aggressive organizations tie up to 40 percent of senior management bonuses to the sponsorship of growth initiatives.

Exhibit 5: Solid Tradecraft Addresses Critical Recurring Problems with Discipline



As shown in **Exhibit 5**, this toolkit helps to address critical recurring problems that often occur in the discipline of innovation.

Step 4: Build an Explicit Intent to Innovate

The likelihood of success increases 20-fold when a leader clearly declares a goal. Just as President Kennedy set the audacious goal of putting a man on the moon, organizational leaders need to declare the intent to innovate. Doing so clarifies innovation as an area of critical importance (not just a slogan or advertising campaign) and challenges the talent within the organization. It sets valuable “stretch goals,” often in areas that the organization does not do well in today. At the same time, intent-to-innovate statements should leave ample “head room” by not presuming to know exactly what will be done (or how it will be done).



John Noseworthy, the former CEO of Mayo Clinic, made such a statement when he committed the organization to serving 200 million patients a year by 2020, without building new hospitals. This figure represented a 10-fold increase over the 20 million patients being served at the time, a figure that took Mayo 136 years to reach. The key to achieving this goal lies in the Mayo Center for Innovation, which aggressively invests in various platforms and programs, and the Dan Abraham Healthy

Living Center, which focuses on healthy living and behavior change. Both initiatives reach patients outside the walls of the organization, serving them where they live and work.

Dramatic Benefits to Following the Four Steps

As illustrated in **Exhibit 6**, the ideal approach to innovation integrates all four of these steps into a comprehensive, proactive program that combines senior leadership; talent and capability development; innovation process experts; frontline units, functions, and programs; high potential young people; and venture partners.

Exhibit 6: Building Innovation “with Teeth”: A Proactive Program

<p>CEO / SENIOR LEADERSHIP TEAM</p> <ul style="list-style-type: none"> ~ <i>Sponsors</i> of innovation ~ Establish goals and metrics ~ Determine incentives and rewards 	<p>UNITS, FUNCTIONS, PROGRAMS...</p> <ul style="list-style-type: none"> ~ This is the <i>unit of analysis</i> ~ Assess periodically; build scorecards ~ Determine which need improvement, reinvention, or transformation
<p>HR / TALENT AND CAPABILITY DEVELOPMENT</p> <ul style="list-style-type: none"> ~ Drive innovation <i>scale</i> ~ Teach signature approaches ~ Administer routine actions 	<p>HIGH POTENTIAL YOUNG PEOPLE</p> <ul style="list-style-type: none"> ~ This is the <i>unit of action</i> ~ These individuals author initiatives ~ They clearly understand that these successes drive their careers
<p>INNOVATION PROCESS EXPERTS</p> <ul style="list-style-type: none"> ~ <i>Bring specialized skills</i> ~ Support initiative teams ~ Orchestrate outside experts, where needed 	<p>VENTURE PARTNERSHIPS AND LABS</p> <ul style="list-style-type: none"> ~ This is a <i>unit of exploration</i> ~ Accelerates agility and discovery ~ Can play by different rules ~ Can foster new portfolios and bets

This approach dramatically improves success rates. As shown in **Exhibit 7**, partial installation of it can yield a seven-fold increase in hit rates, from the typical 5 percent to 35 percent. Full-fledged implementation can boost hit rates by a factor of 14, to 70 percent.

Exhibit 7: Differing Degrees of Intervention

What you achieve is a function of what you are willing to install...

<p>Best</p>	<ul style="list-style-type: none"> • <i>Metrics throughout the firm</i> • <i>Incentives for leaders to sponsor growth initiatives</i> • <i>High potential young people to author growth initiatives</i> 	<div style="border: 1px solid gray; border-radius: 50%; width: 60px; height: 60px; display: flex; align-items: center; justify-content: center; background-color: #ccc;"> <p style="margin: 0;">Hit rate ≈ 70%⁺ 14x</p> </div>
<p>Better</p>	<ul style="list-style-type: none"> • <i>Deep innovation “themes”</i> • <i>Best in class platforms</i> • <i>Lightweight innovation: clouds crowds, partners & prizes</i> • <i>Clear sense of ecosystems shifts</i> 	<div style="border: 1px solid gray; border-radius: 50%; width: 60px; height: 60px; display: flex; align-items: center; justify-content: center; background-color: #ccc;"> <p style="margin: 0;">Hit rate ≈ 50%⁺ 10x</p> </div>
<p>Good</p>	<ul style="list-style-type: none"> • <i>Signature tradecraft</i> • <i>Diagnostics</i> • <i>Center of excellence</i> • <i>Measurable “innovation intent”</i> 	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="border: 1px solid gray; border-radius: 50%; width: 60px; height: 60px; display: flex; align-items: center; justify-content: center; background-color: #f00; color: white;"> <p style="margin: 0;">Hit rate < 5%</p> </div> <div style="border: 1px solid gray; border-radius: 50%; width: 60px; height: 60px; display: flex; align-items: center; justify-content: center; background-color: #ccc;"> <p style="margin: 0;">Hit rate ≈ 35%⁺ 7x</p> </div> </div>