Innovation: The Board's Role

Transforming the delivery of care calls for new governance priorities, practices

By Daniel Wolf

Health care transformation requires changes in many aspects of patient care: service design, prices, value and quality. Some of these changes are fairly modest, while others involve major moves in strategic focus, resource plans and operating models. Transformation of the scope and scale that is targeted by our political, clinical and executive leaders requires innovation, which poses two questions for health care governance leaders.

First, what do we mean by health care innovation, and what are the intentions we should share in fiduciary terms with the board and executive management? Second, what aspects of innovation — strategy, resources, practices, capacity and outcomes — should the board expect to oversee? These questions lead to a broader conversation about growth, performance and change, and reveal the pathway to a critical part of health care board practices going forward.

There are five primary types of health care innovation:

- **Process:** Advancing or reframing operating and patient care methods and pathways
- **Service:** Standardizing care processes across different points of delivery
- **Network:** Rethinking revenue and resource leverage, patient access, risk assessment and value realization
- **Scientific:** Bringing technical and scientific options to care design, procedures and practice
- **Model 9:** Changing the basic nature of patient, resource, provider, financial and service relationships across the entire experience

When board members and executive leaders explore innovation, they are opening the door to new ways of decision-making, strategic planning, risk management and problem-

Editor's note: This is the first in a four-part series on innovation. In Part 1, Daniel Wolf, chairman of the board of directors of Munson Healthcare, Traverse City, Mich., explores the meaning of innovation in health care and its place in the board's fiduciary duties. Parts 2–4, which will appear at www.trusteemag.com/webexclusives, will focus on approaches to, connecting strategy with and the value of innovation.

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solving. For most boards, that step will have big implications for the role and value of governance.

Board Roles Are Evolving

The evolving nature of health care is reflected in the evolving roles and principles of governance: strategic planning, compliance oversight and operations oversight. These roles are more important than ever. They are shaped by fiduciary trust, and they are connected by major economic and social policy interests that are tempered by national, and even global, themes. In short, the conditions and challenges of health care reform have injected a host of new tensions into these roles and functions of governance.

The objectives of reform are not difficult to embrace: We need better care, provided and managed in better ways, for better outcomes and value. The difficulty comes with achieving these goals during a period of great transformation. Many boards are asking themselves the following questions as part of the broader conversation on innovation: How do we view the transformation journey? What are the functional keys to board oversight for this journey? How will the board and executive leaders interact? What kind of skills and experience can board members share? How can board leaders guide the agenda for change and adaptation in a meaningful and value-savvy way?

Updating board functions is something that executives and governance committees are duty-bound to address. Typically, boards are challenged to devote equal energy to strategic planning, compliance concerns and operating issues. But in the current environment, there is a fourth priority: innovation programs. Effective oversight of these areas guides forward planning, risk management and decision support in ways that enable the transition to high-quality, high-value care. Additionally, board oversight of each area will inform the other areas, creating a combined sense of perspective, know-how and urgency.

Trustees work with executive leaders to match patient and community needs with critical, limited resources. We provide oversight functions for everything from quality to finance, and from structure to networks. The evolution of governance requires more discipline, focus and responsibility from board members and executives alike. Transformation and its many facets raise the expectations for health care governance.

Devoting more energy to strategic matters and innovation is part of the functional recasting of health care boards. The time and energy boards invest in strategy oversight have expanded in the last 20 years. The approach taken with the oversight of different forms of innovation also demands more time and energy, talent and insight, discipline and engagement. Board leaders and executives must work together to reset expectations and to apply the necessary deliberations and actions to the road ahead — moving from near-term issues to long-term issues in health care.

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Moving the Value Equation

Trustees are keenly aware of the challenges related to moving from the volume-driven model of hospital services to the value-defined model of integrated care. This transition, defined by futurist Ian Morrison as the journey from the first curve to the second curve, is driven by five factors:

- Economic incentives across stakeholders
- New management methods, processes and practices
- Adoption of emerging technologies
- New interfaces between patients and providers
- New considerations about access to and quality of care and patients' perceptions of care

These forces bring a combination of promise and tension to planning and decision-making. Taking time to become comfortable with the ambiguity and complexity of this moving value equation is not an option for trustees. We have to move into the future territory of health care innovation with resolve because it is our governance duty.

Adding to the tension of change is a so-called third curve: the advance of value-driven care delivery to models that are more automated, connected, convenient and predictive as well as less costly, less physician-driven and less location-specific. This convergence of technical, market and economic forces likely will become more solid in the 2023–2028 planning horizon. While this seems beyond the scope of a board's normal planning cycle and attention, it represents a practical horizon for health care strategy and development.

As trustees, we consider the elements of major capital budgets for resources that will be used for decades, based on economic logic that reaches out many years. We consider the needs of the communities we serve in assessments that look back with hindsight and ahead with foresight and promise. We consider all kinds of arrangements that involve

Coming in February: Innovation as a Competency available at www.trusteemag.com/webexclusives

In the second part of this series, the author will take a closer look at the vectors of innovation and their areas of impact.

the systems and human assets of our organizations, the equipment that goes with service lines, the partners we develop and engage, and the very market spaces we occupy. The forward-planning, decision-making, risk management and problem-solving that go with these things are both near term and long term. Some are very long term, pushing well into third-curve territory.

A big piece of the journey from the first curve through the second curve, and then on to the third curve is health care innovation. Boards are challenged to find their strategic mojo with innovation, and this challenge is laced with the natural tensions that accompany driving performance in the first curve while moving into the "new normal" conditions of the second curve. Then add to that the guidance making transformation work with conditions that will emerge and unfold into the third curve. This will demand courage and readiness.

On the Agenda

Board oversight of innovation means more than casual assurances that the organization cares about it. How the capacity for innovation is defined, assessed, funded, guided and measured is an essential board responsibility. What actually happens in the engine rooms of health care innovation is management territory, supported by governance practice.

Going forward, boards are obligated to address the strategic, resource, structural and cultural drivers of innovation. Moving from volume to value depends on changes that are enabled by innovation in processes, service lines, networks, science and operations. Board leaders and executives must find the space to tackle this prerogative and the vision to take it all further into the third curve of health care transformation. T

Daniel Wolf *(wolf@dewarsloan.com) is managing director of Dewar Sloan and chairman of the board of directors of Munson Healthcare, Traverse City, Mich.*

The Vocabulary of Transformation

When board leaders and executives put innovation on the governance agenda, two important developments unfold.

First, the purpose and language of innovation get exercised, which brings oxygen to a conversation about the causes and effects of change, strategic and economic value, and health care transformation. Second, the organization's capacity for innovation becomes a board priority. The language of innovation is more than just words. It has cultural power and social value. When boards and executives become comfortable with the language of innovation, they begin to raise the expectations of all health care stakeholders. As that becomes the norm, ideas come together with plans, and plans get connected with teams, which leads to impact.

For boards, some basic vocabulary can help to form the organization's practical language of innovation.

Five vectors of health care innovation:

- **Process:** Focus on improving care methods, protocols and quality for greater efficiency.
- **Service:** Focus on vertical service lines, such as cardiac or cancer care.
- **Network:** Focus on the structure and channels through which patients, payers, providers, resources and cost/value incentives are connected.
- **Science:** Focus on the technical drivers that improve the diagnostic, predictive, interventional and restorative practice of health care.
- **Model 9:** Focus on disruptive change in health care and the related economic implications.

Four impact levels of health care innovation:

- **Sustaining:** continuous improvement, cost- and risk-containment
- **Substantive:** principal and significant changes in access, standards and processes
- **Disruptive:** fundamental changes in approach, control, quality and access
- **Destructive:** elimination of a major vehicle for the delivery of care, with or without replacement

Five enablers of innovation:

- **Idea sort:** generation, arrangement and evaluation of ideas
- **Portfolio:** collection of large and small innovation projects from which the organization can draft its agenda for growth, performance and change
- **Structure:** the organization of people, data, methods and assets that turn ideas into change
- **Processes:** development and assessment avenues that help to drive innovation programs from general ideas to value-producing moves
- **Leadership:** open-minded, discovery-oriented guidance that shapes how the organization prioritizes initiatives

While this list is not exhaustive, it's a starting point for innovation discussions at the governance level. It helps to shape transformative purpose and connect board members in the creative, analytic and resource modes that power innovation. — *D.W.*