



Governance and Healthcare Innovation: An Intentional Focus on Transformational Change

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Healthcare innovation has many forms and facets. Hospital and health system boards are wading through the range of technical, operating, and strategic challenges that are shaped by innovation. Disruptions in the sector and the investment capital required to keep pace in this era of healthcare transformation are clearly on the forefront of governance attention and action.

Getting organized for a more digital world of healthcare, with complex incentives and value-shaping connections is complicated. And progress on healthcare transformation depends on innovation. Population health, standards of care, cost/value, access integrity, and quality—by every measure—require different approaches to healthcare innovation.

Framing the right conversation on healthcare innovation is an emerging board agenda subject. The conversation needs the right starting place and mindset, and it needs to make sense for the organization. A working framework for putting things in context is reflected in the five vectors of healthcare innovation:

1. **Process-level innovation:** Spans advanced methods, pathways, value streams, resources, and new structures for enhancing the patient experience, cost/value dynamics, risk management, and standards of care.
2. **Service line innovation:** Reflects in the coordination and integration of primary care and advanced care. Much of the focus on service line innovation is geared to chronic disease management and complex clinical care protocols.
3. **Network model innovation:** Often emerges from the dynamics of benefit plan management, insurance platforms, and incentive programs. The combined force of incentives, access, quality, and service markers shapes cost/value.

4. **Science/tech innovation:** Influences every area of healthcare, from conception to care at the end of life. Data systems, automation, materials and devices, procedure substitution, service standards, and protocols play here.
5. **Business model innovation:** Reflects shifts in service access, resource alternatives, and alternate care delivery. These often involve revenue stream disruption and resource concentration in local and regional markets.

These five vectors of healthcare innovation feed into a complex horizon for planning and decision making. They provide context for board and executive focus on strategy and investment, collaboration, competitive strategy, and the intentional transformation of healthcare norms.

Boards are becoming more engaged in the focus on innovation in several areas:

- **Board members and leaders are duty-bound to understand the landscape of healthcare challenges and solutions** in general. That means awareness and insight on issues related to cost/value, quality, and care experience, access, and impact. Healthcare innovation presents options for change in these areas and many more. Dealing with healthcare transformation starts with perspective, and that includes assumptions about the broad impact of innovation that could reshape 15 to 20 percent of total healthcare spending and investment. That deserves attention.

→ Key Board Takeaways

- System boards have unique opportunities for advancing the impact of healthcare innovation with targeted investments and collaboration with system partners.
- Healthcare innovation should be a key priority for system boards, and a core competence of the extended organization. Improvements in patient access and experience, cost/value advantage, quality and outcomes, and community health are at stake.
- Health systems have the advantage of scope and scale to power the translation and integration of innovation solutions. Boards and strategic teams should charter this work.

- **Innovation in different forms and vectors has broad implications for strategic priorities.** Healthcare integration and coordination is enabled through investment options and choices. Governance work in strategic planning, risk management, decision making, and problem solving requires more time on task with options and choices in the healthcare innovation arena.
- **Board members are coming to appreciate the consequences of healthcare innovation.** How will more innovation impact the organization? How will options be scored, invested, managed, and valued? How will a healthcare innovation culture be generated and sustained? How will different paths for innovation be connected, blended, and advanced, both in the near term and long term? How will choices and conflicts be navigated by management and governance?

Building the Right Conversation

Today, the healthcare innovation story is captured in a wide range of board and executive conversations. However, these conversations are often isolated and dispersed. They may not share a practical and coherent picture of healthcare innovation strategy, shape logical and connected foundations for investment, capture the strategic offense and defense of healthcare innovation or the revenue and resource challenges, and balance the work to be done in program development, execution, and adaptation.

This suggests that boards and executives need new conversations on healthcare innovation. Our HeCEM 2020 research on healthcare organizations and innovation¹ shapes some of the key questions to consider and provides guidance for board engagement that leads to smart options. Boards should ask questions that:

1. Guide conversations on what makes sense for the hospital or health system. What is the right approach for an academic medical center, a regional health system, a community medical center, a subsidiary hospital, a critical access hospital, or a specialty clinic? What approaches for innovation will balance the intentions of stakeholders? What investment approach will help match near-term and long-term goals? Getting the scope and scale of innovation efforts in balance with individual

1 This research was conducted by the HeCEM Group of Dewar Sloan with hospital and health system-based innovation centers across the United States. The publication with this research, *Healthcare Innovation Challenges and Horizons*, will be published in 2022.

hospitals and health systems starts with a check on purpose, vision, and mission. A key issue for smaller organizations is the translation of innovations to their circumstances and conditions. The key issue for larger, more complex organizations is managing the portfolio of innovation projects. The common challenge is finding the innovation agenda that adds value and reduces risks.

2. Shape the conversation on resources, programs, and systems that enable the work across the different vectors of healthcare innovation. What core resources are required? What kind of talent will match the intentions of the organization? What kind of collaboration makes sense relative to resource development, risk management, economic investment, and operating excellence? How can healthcare innovation drive competitive advantage, healthcare experience, economic performance, and corporate stewardship? Again, scope and scale are important here. For some organizations, collaboration across systems and partnerships makes sense. For others, working with a more concentrated specific focus makes sense—along service lines or science lines. More often than not, sound structures follow clear strategy, so there is a checkpoint that demands board attention.
3. Define hospital and health system capacity for moving forward. Who would staff the efforts and programs for healthcare innovation? What kind of time and energy is required? Where is the expertise and thought leadership that will help forge programs and results? What constraints and obstacles will need to be addressed? Does the organization have the culture and structure that will enable the incubation, acceleration, translation, and integration of an ongoing and adaptive healthcare innovation program? The leadership of healthcare innovation draws from the talents and interactions of people with different expertise, mindsets, and experience. For most organizations, the right kind of culture for innovation is one that blends together curiosity, order and arrangement, and integrative efforts—focused on what social scientists call collective impact.

These are strategic and operating questions that shape the roadmap for healthcare innovation, the commitments required, and the leadership needed to succeed and sustain. This is a critical conversation about the mission of the hospital or health system, the challenges that matter most to stakeholders, and the board's picture of near-term and long-term objectives.

Big technology, big commerce, and big ecosystem forces pose as disruptors to the healthcare sector. What we have seen over the last few years is more work by these

groups in collaboration with one another. These efforts often connect conventional providers and stakeholder models with better information, processes, standards, and platforms, enabled by different partnerships.

Healthcare innovation has always been a collaborative journey, matching patients, hospitals and health systems, providers, investors, and suppliers with actions that transform programs and *collective impact*. Across a \$4 trillion healthcare sector, there are many options and many blueprints for growth, performance, and change. Boards have choices to make. Choices about healthcare innovation in general, and choices that guide program and platform investments, power strategic collaboration, and prepare stakeholders for change that matters.

Board Leadership and Focus

The powers and responsibilities of boards today tend to focus on compliance, quality, access, operating, and service themes. While some boards cover clinical and service line integration themes, fewer focus on discovery and innovation. With the challenges of COVID-19 and broader pressures for healthcare transformation, more focus has shifted to the need for innovation—across the different vectors. While healthcare organizations are navigating under great stress, the gates are open for serious movement on all five vectors of healthcare innovation listed above.

Boards and executives must bring attention to the greater prospects for healthcare innovation. For many organizations, innovation activity already exists in dispersed forms and settings, influenced by clinical programs, service standards, access platforms, and operating systems. Leadership can interact on these opportunities with renewed focus on real change and impact.

Another dimension of leadership requires a look at the *outside-in* and the *inside-out* aspects of healthcare innovation. So many opportunities for innovation emerge at the intersections of the five vectors described above. Incentives from CMS exist at these intersections. Alphabet, Amazon, Apple, and a host of others percolate across these intersections. Suppliers and contractors join clinicians and managers at many of these intersections. Collaboration and program design support are part of the new

competence of healthcare innovation. Boards and executives share the responsibility for advancing both innovation mindset and readiness.

The next decade stands to become the most consequential period for healthcare innovation in more than a century. Boards and the organizations they serve have the obligation to move forward with a more focused strategic agenda for healthcare innovation.

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