

# Inside <sup>M</sup>Healthcare

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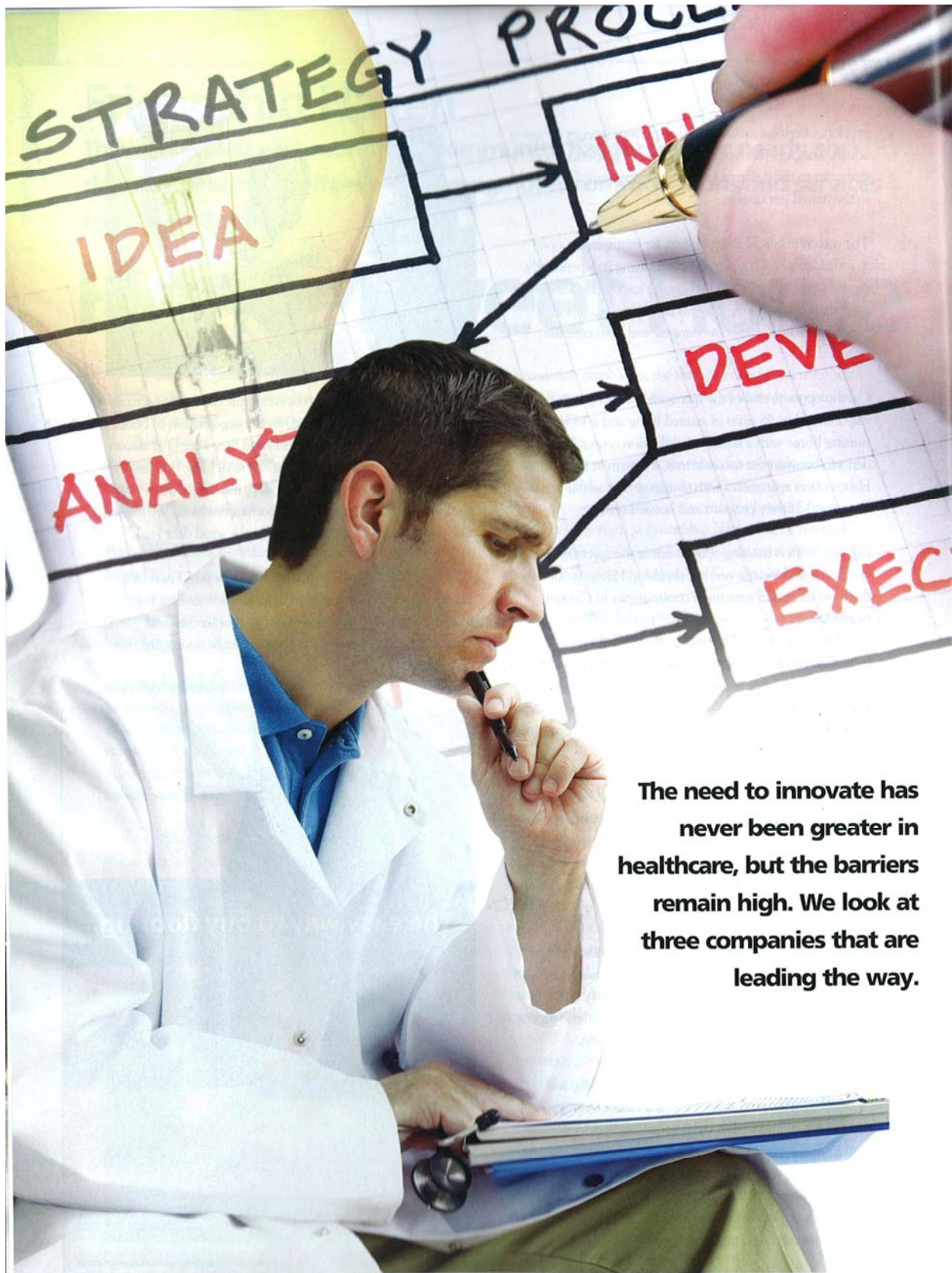
# Woven

What happens when a medical school and a hospital group become truly integrated? NYU Langone Medical Center aims to find out.

# Together







**The need to innovate has never been greater in healthcare, but the barriers remain high. We look at three companies that are leading the way.**

# Speak to Me

In almost any segment of the healthcare industry, organizations have a critical need to change. A turbulent economy, non-traditional competitors, new technologies, and potential regulatory reform are tearing up old recipes for success. To create new winning formulas, healthcare executives need to quicken their pace of creating and implementing innovative ideas.

This is challenging. Many industries based on innovation, from mobile phones to automobiles, find it hard to shorten their time frames for finding and commercializing new concepts. They also struggle with improving the proportion of ideas that generate significant success in the market. This is even more difficult in the complex and regulated world of healthcare.

Yet a handful of healthcare firms have repeatedly succeeded. These companies, including Johnson & Johnson, Ascension Health, and Blue Cross Blue Shield of Florida, have adopted principles from leading venture capitalists to create a robust innovation pipeline. How do they do it?

## Finding ideas

"If you have a hammer, everything looks like a nail." It is very tempting to start the hunt for innovative ideas by defining your current business and then asking how it could be better run. This approach is likely to keep discussions in comfortable, well-understood territory.

But truly innovative ideas are seldom incremental improvements on existing systems. Rather, successful innovators start with a deep understanding of the circumstances in which customers find themselves and work backward to create

solutions for customers to get their critical jobs done in those situations.

Ascension Health, America's third largest hospital system, has used this approach in its Transformational Development department. Rather than entrusting idea creation solely to its St. Louis headquarters, it co-creates concepts with the people it seeks to serve.

Staff members live in economically depressed areas like Flint, Mich. to better grasp healthcare needs and constraints in these circumstances. Among the resulting projects are concierge services for the poor, tools to help people navigate the healthcare system, and telemedicine that extends the reach of hard-to-access specialists.

These are not typical hospital concepts, and that's the point: Ascension Health is trying to transform healthcare delivery by basing its idea generation on patient needs and then working out viable models to support these initiatives.

## Assessing concepts

Seldom does a great opportunity to create unorthodox sources of growth look good through traditional lenses. Weighed against competing demands for time and money from the well-understood core business, these ventures will have a huge number of unknowns as well as uncertain returns.

Ascension Health has separated out Transformational Development from Operations Optimization, a unit charged with day-to-day innovation. In a similar fashion, Johnson & Johnson's Ethicon Endo-Surgery, a leading supplier of



## Management

surgical instruments, has created a Franchise Development (FD) organization alongside its traditional R&D function.

FD is tasked with creating new growth platforms, like surgery without incisions. Its evaluation metrics are based on patterns of success, rather than pro forma financials that are inherently unknowable in such novel fields.

Through assessing common traits of successful medical technologies, it has distilled several sought-after characteristics, such as shifting site of care to a lower-cost location. These patterns enable a quick prioritization of ideas, with the leading concepts ultimately progressing to a more financially-oriented analysis once the area has been investigated more thoroughly.

The prioritization enables focus on a handful of growth platforms. Without this focus, J&J couldn't concentrate its efforts to the degree needed to get its investigations to these later stages quickly enough to compete effectively in this fast-moving industry.

### Commercializing opportunities

In the traditional business, managers expect flawless execution. But if an offering is truly innovative, executives must plan for false starts and redirection. Indeed, the entrepreneur's lore is that the average successful new venture changes its approach four times.

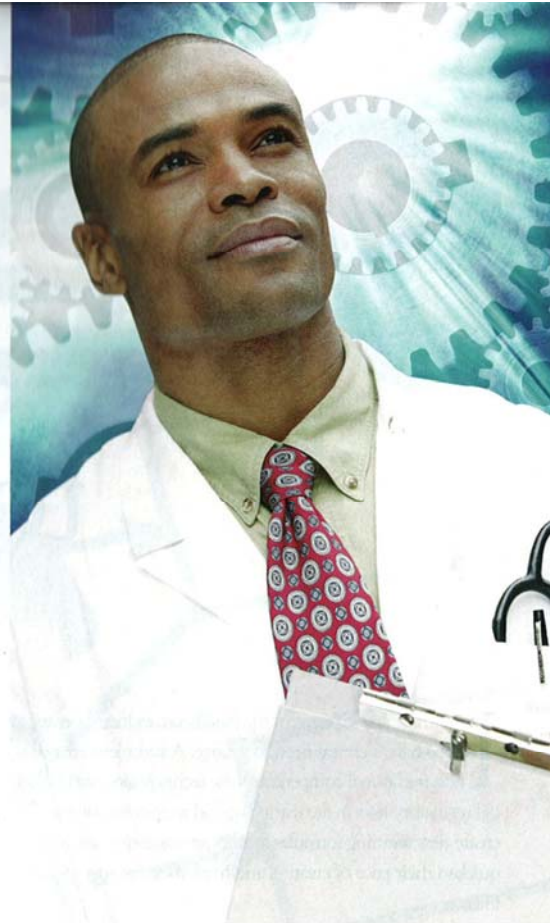
How can firms allow for this kind of flexibility while maintaining control over their new ventures? Blue Cross Blue Shield of Florida has created a process for doing so.

The company has established a separate team with a mission to conceive, shape, and pilot disruptive innovations. After passing an initial set of attractiveness screens, each promising venture must be carefully profiled using an assumptions checklist.

The checklist enumerates the dozens of specific risks or unknowns facing each new venture. These risks cut across many categories, including operations, distribution, customer demand, competitive response, and many others. The list is carefully ordered, prioritizing the "deal killer" risks—risks that, if left unresolved, would undermine the entire venture.

Targeted experiments test these key risks first, ensuring that minimum time and expense is invested in removing the most important areas of uncertainty. Ventures progress from targeted pre-pilots to fully integrated pilots where the operational model as a whole is tested.

The entire process is overseen by an Innovation Governance Board with the explicit objective of helping each venture clearly



delineate and reduce risk. The board, composed of the top leaders of the company in each functional area, rigorously holds each venture manager accountable for progress while simultaneously problem solving to overcome key barriers to success.

Healthcare is an industry where the stakes are literally life and death. Successful healthcare organizations get to be outstanding at executing projects and understanding the outcomes of their interventions. Unfortunately, these skills can insidiously hinder innovative thinking, where much is inherently unknown.

Unleashing innovation doesn't mean letting go of rigor, but it does require a new kind of discipline that focuses resources on critical questions and avoids traditional approaches that add little value in these endeavors. The discipline required may be unfamiliar, but it's nonetheless one that process-oriented organizations can master. +

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