Searching for Innovative Organizations in Health Care

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Although the financial crises rocking the US economy have largely spared the health sector so far, they will undoubtedly touch all organizations over the next few years. These forces will almost certainly lead to significant changes in payments and incentives within the U.S. health care system.

With crisis come pressures that create opportunities for extensive transformation via organizational innovation. Organizational innovation is the implementation of new management structures, processes, business models, and strategies that both respond to market changes and lead market transformation. When technological or economic conditions require dramatic change, businesses that successfully navigate organizational transition can survive discontinuous changes that threaten a firm’s very existence, while those that remain inert will fail.

In health care, the most pressing issue is whether hospital-based organizations will successfully navigate into less capital intensive business models. The challenge here is similar to the travails of the US auto industry, with the need to navigate in a changing market environment with a high fixed-cost infrastructure and legacy labor costs. Can hospitals build management teams and organizational forms to guide this transformation or, instead, will traditional hospital-based providers become the auto companies of the 21st century?

Several recent examples of organizational innovation show its power to move markets. A highly visible example is the computer industry, where new generations of firms and technologies drive ever increasing capability at continuously lower price points. Organizational innovation enables firms to pursue new business models for each generation of technology, so
IBM’s personal computer spawned the Dell laptop computer, the Research in Motion Blackberry, and the Apple iPod. Organizational innovation success stories date back to the days of buggy whip manufacturers, but despite this enduring role the process is undervalued in healthcare today. Hospitals need to look at new competition from other established health care providers, new firms, or – more likely – diversifying entrants that are already experimenting with new models, such as the CVS Minute Clinics, Wal-Mart’s on-site clinics, GE’s partnership with UPMC to open cancer clinics in Europe and the Middle East, and Google and Microsoft’s interest in personal health record businesses.

These examples highlight a key point: For a firm to revolutionize an industry, it must look beyond its current market, current technologies, and current delivery systems. It must break apart its ossified routines and reorient itself to a new technological and business paradigm. Mature firms in all sectors have difficulty changing routines and implementing new, unfamiliar structures, and accordingly many pathbreaking business models are introduced by entrants rather than incumbents (imagine if Xerox had maintained its computer technology including the first computer mouse and icon-based monitor, rather than failing to establish new business models for those advances). Nonetheless, established firms such as traditional health care providers can retain their market position through organizational innovations if they institute creative frameworks that adjust to the demands of new and changing markets.

How, then, can health sector leaders pursue organizational innovation? Leaders must review financial and management processes to ensure they have an adaptable organizational platform that will support new organizational structures, new business processes and models while divesting old forms and structures (divestiture is a key attribute of organizational improvement and helps to drive the efficiency of the new business model). Capital planning
processes will also need to be re-examined to separate rigorous financial analysis from the “strategic value” used to justify new investments.

Hospitals also should consider developing internal exploratory environments that investigate alternative delivery mechanisms and business models. This can include an environment to test new clinical service lines, new methods for allowing accountability to devolve within the organization, and new opportunities to train functional group leaders in general management including strategy and P&L responsibility. The important point here is that some current limits to organizational innovation arise from inertial managerial practices that thoughtful business strategies can remedy.

Organizational innovation also can help U.S. health care providers thrive in a globalizing environment. Globalization is not just a study of outsourcing models, it also includes a search for new ideas and organizational strategies that arise from resource constrained environments. The globalization of health technology has created a laboratory for discontinuous innovations in other markets.

Effective organizational innovation will require not just changes to US business strategies but also changes to US regulatory policy. In health care, regulatory requirements and administrative relationships reinforce standard and difficult-to-change processes, creating major impediments to change. Policy makers should also consider financing organizational transitions and changing reimbursement incentives so existing providers are encouraged to invest in processes and people rather than just fixed capital investments. Regulatory safe harbors might be necessary to protect innovators from compliance issues entailed in the organizational change. Finally, we need to avoid well-meaning public and philanthropic efforts that can generate
adverse selection by protecting high-cost or failing business models by insulating providers from the pressures of consumer needs.

Although pursuing organizational innovation is difficult, it holds promise for creative solutions to the cost and quality problems that currently plague the US health care system.