



# **CREATING THE INNOVATIVE ORGANIZATION**

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## INTRODUCTION

All around us we can see the world moving at exponential speed, and as a result, constructs we have come to know are going to profoundly change. Accelerated improvement in technology performance and its associated economics continue to generally follow the principles of Moore's Law; a world that was local and predictable is now global and unknowable. Adoption will take place at record speed in some places and in fits and starts in others ... but it is coming.

Part of the reason for this speed is the reduced cost of experimenting. While it used to cost a billion dollars to sequence a single genome, researchers can now access entire databases for free. Data, 3D printing, algorithms, computing power all cost a fraction of what they did a few years ago. With the cost of conducting trials dropping, the number of people conducting experiments is increasing, and this simple equation means more people are driving innovation.

Perhaps more importantly, there is an explosion of data, sensors, networks, storage and speed and the ability to analyze them for patterns and intelligence. These technologies stack on to each other and are reinforcing, which makes the acceleration that much faster.

In a matter of only a few years, we've watched entire industries displaced – taxis, music, retail, publishing. An article in Harvard Business Review cited several studies that looked at the S&P 500 over a 60-year period; in 1958 a company could expect to stay on the index for 61 years. In 2011, the time frame was 18 years, and in eight years from now, one can expect to see 75% of the organizations gone from the index – dissolved, merged, or replaced.

Healthcare faces these same technological forces and its own business challenges - thin margins, compressed reimbursement, provider consolidation and new disruptive entrants like Amazon and or private equity firms, as well as political forces from each side of the spectrum.

How this marriage of technology and business upheaval will impact the hospital system in middle America is unclear. The downside of these changes can include: job disruption; increased business risk; disaggregation of distributors. Studies that try to predict the labor force implications of these changes, such as those impacted by Artificial Intelligence (AI), largely focus on the types or locations of affected jobs and settle on the broad assumption that there will be more winners than losers, across a sea of broad displacement. While patient facing jobs like nursing are likely to be impacted less, even those could be displaced. We've seen an AI-enabled Avatar that has effectively provided a basic level of behavioral health counseling, able to detect subtleties like voice inflection, body language and the like. As the technology improves and "stacks", where will this technology be in a few years? How does the CEO or COO really get at the question of when, who and where the displacement will occur and how to invest in a myriad of potential promising technologies?

The downside may be chilling, but the upside of innovation and technology is also clear, if more subtle to attain: faster, cheaper, better decisions that enable substitute products and processes in areas humans are too slow or where a machine can release effort. They include complimentary capabilities where technology enables us to do something that would be too expensive and time-consuming today.

## PROBLEMS IMPLEMENTING INNOVATION

To prepare themselves, many organizations have added a Chief Innovation Officer to the ever-growing group of C Suite officers and have invested in training, venture like funds, innovation hubs and partnerships. Most organizations see the change coming and are attempting to react. The dichotomy is that all need to act ... and most are trying something... but many are doing it poorly or in a fragmented fashion.

Initiatives like a fund or “innovation day” are not wrong by themselves but often confuse the organization trying them. Activities without an innovation process and strategy will lead to what Silicon Valley entrepreneur Steve Blank calls “innovation theater”, or stated another way, activities that may create some marginal individual value but are ultimately not valuable for the organization. Sizzle, no steak.

The problems that we see include the following:

***Lack of governance and discipline.*** This is often the last thing that one wants to address, feeling that innovation by its nature is somehow divorced from the kind of formal processes that are implied by a discussion of governance. In fact, it’s probably the most important thing to achieve. In this case, governance does not equate to bureaucracy; rather it helps create focus, replacing ad hoc, misguided innovation with a distinct method of identifying and curating problems, prioritizing efforts, acquiring resources and experimenting. A recent CB Insights survey of 667 senior executives found that 57% of organizations do not follow an innovation process.

***Chasing the Bright Shiny Objects.*** I recently heard a respected venture capitalist say that nearly every pitch he gets is a company offering some version of AI, blockchain or machine learning – even when most could not truly articulate reasonable use cases as it related to their business. Moral of the story: a focus on the cool widget or the neat tech, without a clearly defined problem statement or a process for integration will lead to poor implementation.

***Sub Scale Efforts*** – as a corollary to chasing the bright shiny object, many organizations are desperate to jump on the innovation train and in doing so make a variety of mistakes, all of which result in sub-scale efforts. These can include starting an “innovation fund”, as an internal venture funding, but doing it with neither the expertise to effectively scout technology, a governance process for experimenting with it, nor with enough money for lasting effect. Many current health systems, even those with reasonably large venture funds or accelerators, are dramatically sub-scale compared to what is happening in other countries, Silicon Valley, Boston or Austin.

***Problem Statement definition*** is the best way to articulate your specific use case need to the broader community inside and outside the organization. However, organizations often shape their efforts around a portfolio of technology areas rather than use cases. These problem statements should be no more than one page in length – hopefully shorter – and provide specific guidance to the innovation ecosystem on what the issue is, what problem you want solved and the end state outcome you seek. This sounds easy but isn’t; the CB Insights survey found only 30% of the best performing organizations felt they were effective at idea generation.

***Ignoring the Corporate Immune System (CIS).*** The addition of an innovation structure, governance and ecosystem into a corporation often sets off a chain reaction of negativity around the initiative, sometimes hidden from the executives sponsoring it. The CIS is the resistance that coalesces within the organization to resist by any means available any initiative that threatens to disrupt the status quo. The corporate immune system is what makes it possible for external disruptive innovators to be so successful against incumbents. The CIS reaction is comparable to what we see with large scale transformation processes. Driving innovation requires a rational process, sensitivity to the political realities inside an organization and transparency to identify the enemies of and support the champions of change.

***Unsustainable Heroic Efforts.*** Organizations that build their innovation teams or technology scouting operations around a few special people who can navigate the bureaucracy, have personal brand or have special relationships outside of the company, find their organizations achieve great success – but it is fleeting and often implodes after the superstar fades or leaves.

***Non-Existent Metrics for evaluation of success.*** The mantra to “fail fast” is not a goal but a recognition that innovation requires layers of experimentation. Failing fast and experimentation should lead to information that allows you to iterate and improve the design. Measuring this is tricky as traditional ROI measurements will not work.

## DEFINING INNOVATION

Innovation takes different forms depending on the size of and level inside an organization, as well as the time frame and risk orientation being considered. Product innovation is different from process innovation, but both can follow a similar governance path. The term disruptive innovation, as pioneered by Clayton Christensen, is often used generically, but this is not technically correct; it is appropriately defined as when a smaller, less resourced organization challenges an incumbent by targeting disregarded markets, eventually moving upstream. We see some examples of this in healthcare data analytic organizations, who have selected specific use cases or diseases, started small, and created massively valuable companies in the face of competition from IBM Watson and Google. Business model innovation – for instance, a provider entering the insurance market – is probably better described as a business strategic shift.

Various time frames inform innovation strategy. Those in the immediate term, defined as zero to twelve months, are most likely targeting existing strategies and customers, whereas the longer term allows for more risk, more tolerance of failure, the capability to scale and often the ability to think in more disruptive terms. Often organizations confuse short term innovation with doing more of the same, just cheaper or faster, but this misses the point regarding innovation process and outcomes.

The impact of organizational scale on innovation is also important. Like time frame and innovation shape (product or process), scale can impact what is possible to achieve and what tactics are used.

That said, the core high performing practices for achieving innovation are fundamentally the same regardless of product or process innovation, time frame and scale.

## ASSESSMENT

For organizations that want to accelerate their journey to a culture of innovation – or to locate their organizations on the path to innovation – we find it useful to map an organization on two dimensions. The first is the readiness of an institution (or department inside an institution) to support innovation, compared against the high performing practices of successful innovating organizations we know; and the second, is an assessment of their people and their cultural fit as it relates to an innovative company.

In working with nearly 500 healthcare organizations on issues such as strategy implementation, cultural transformation, financial turnaround, and performance improvement, Galloway has built a High Performing Practice (HPP) library around numerous topics. These include by are not limited to:

Supply Chain	Staff Engagement
Productivity	Throughput / Access
Measurement	Leadership / Governance
Physician Alignment	Portfolio Management
Quality/Safety	Revenue Cycle / Finance
Customer Service	Brand

Each HPP dives deep into various aspects of that topic, generated from our experience.

For instance, on supply chain we look at nine factors: Contract Management & Compliance, Rebate Management, Locally Negotiated Contracts, Reprocessing, Purchasing Processes, Distribution & Inventory

Management, Supplies Monitoring & Budgeting, Physician Alignment, Revenue Cycle and catalogue the best practices associated with each of these elements.

For the organization trying to position or measure itself for innovation, we look at ten dimensions required for effective innovation, regardless of industry or size:

Innovation Strategy	Governance Process
Idea Generation	Design Approach
Organization Design	Portfolio Approach
Metrics	Incentives
Experimentation	Change Management

As an example, high performing innovative organizations would have a written and effectively communicated governance process that provides a clear set of governance principles and a process for evaluating and helping innovation ideas gain resources and move through various decision gates in a predictable way.

A summary of the high and low performing practices for an Innovative Organization are shown below:

CATEGORY	DEFINITION	LOW PERFORMING PRACTICE	HIGH PERFORMING PRACTICE
<b>Innovation Strategy</b>	A well-communicated written document that articulates innovation goals and objectives	A written strategy doesn't exist or if it does, it is not followed, is full of hyperbole and more for "show". It is often created by non-operators with little stake in the innovation outcomes.	Strategy is written, published, and understood throughout the organization. It has clear objectives, ties back into the broader organizational strategy and vision and includes an understanding of time horizons and goals.
<b>Governance Process</b>	Principles, processes and infrastructure for how innovation is nurtured and supported in the organization	There is a weak process for innovation that takes on a flavor of the day. Meetings are sporadically held and agendas do not facilitate decisions that are needed to make innovation flourish or follow a path to success.	There is a written, clear set of governance principles, structure and process that supports, rather than inhibits innovation, helping innovation ideas gain resources and move through various decision gates from problem curation to experimentation and deployment in a predictable way.
<b>Idea Generation</b>	How innovation ideas are gathered, prioritized and selected for action	Ideas are haphazard; they are frequently not associated with any strategic objective and may be "fun" or interesting but of marginal strategic or operational value.	Ideas are generated from throughout the organization, with a focus from customers and operators, with a clear tie to strategy. They are concise, written, and updated in accordance with the articulated governance processes.
<b>Design Approach</b>	How innovation ideas are curated and worked	Design approach to innovation, assuming one exists, tends to be linear in nature and follows a routine process with little incremental innovation.	Design approach follows human centric design thinking principles to include a focus on customers, user needs, immersive ideation. Extensive and routine uses of ethnographic approaches and experimentation in activities. Takes design thinking methodologies and applies them internally.

CATEGORY	DEFINITION	LOW PERFORMING PRACTICE	HIGH PERFORMING PRACTICE
<b>Organization Design</b>	How an organization structures itself to support innovation	There is no dedicated innovation organization or edge organization, and the core organization does not have any significant momentum for creating innovative products or processes. CEO marginally involved in innovation.	Initiatives are led by C Suite, designed for both the core and edge work streams to adapt and foster innovation in both areas of the organization. An edge organization is created, nurtured and allowed to grow to foster longer term disruption. The core organization adopts innovation processes.
<b>Portfolio Approach</b>	The various forums and approaches for applying talent and resources against curated ideas	There are few portfolio options. Sometimes there are only internal projects with minimal outside resources or partners sharing ideas. Ideas or investment are sub scale.	The portfolio includes the appropriate blend of internal and external resources, recognizing that not all good ideas emanate from inside an organization. The portfolio attempts to create a "network of networks" ecosystem, so that resources are optimized, and outside talent and partnerships maximized.
<b>Metrics</b>	How success is measured	There are no metrics to gauge the progress of innovation other than broad ROI or activity metrics that gauge the progress of projects.	Metrics are published and used to reward innovation; these include objective process and outcome measures such as the % of revenue from new products or service lines over x years, number of new products each year, number of experiments or problem statement submissions, and tracking success by cohort. Ultimately the metrics must be able to tie back to and support the innovation strategy document.
<b>Incentives</b>	How success is rewarded	Incentives are weak or only marginally tied to innovation process or outcomes.	Incentives are designed to foster experimentation and drive cultural acceptance of innovation. There should be a balance between activity generated goals and financial and operational goals since much of this work will be aspirational innovation.
<b>Experimentation</b>	The methods for testing ideas against curated problems	There is little experimentation or tolerance of it; the organization leadership has a short-term focus and view experiments that "fail" as failures rather than as learning events.	Experimentation is the preferred and accepted way of learning. A lean start-up approach is adopted, focusing on customer interaction, human centered design and incremental learning. Resources and metrics are tied to the experiments, allowing for reinforcing of promising ideas and the death of those that need it.
<b>Change Management</b>	The ability of the organization to manage the change implied in innovation	Little to no strategy designed or tactics implemented that recognize that innovation will provoke the corporate immune system; change management strategies to succeed are ignored.	Clearly articulated vision and goals. Organization raises awareness and heightens a sense of urgency as to the need for innovation. Purposeful transparency and the anticipation of resistance to change. Tactics include cascading information on a regular basis.

After we assess the organization, we look at the readiness of individuals or groups inside the organization and use a well-known, validated survey instrument to measure both individuals and departments. We use these results as a proxy for assessing the organization or parts of the organization, as it relates to the innovation culture and thus readiness. Then we map the positioning to determine the next steps.

The grid below shows this approach:

<b>Individual Readiness</b>	High Level of Readiness	<b>DISENFRANCHISED</b>  <b>Key Strategies</b> Create an Edge Organization Battle the Corporate Immune System Business Unit Funding of Initiatives	<b>VIBRANT</b>  <b>Key Strategies</b> Expand the Ecosystem of Partners Feed the Edge Organization Celebrate Success
	Low Level of Readiness	<b>LISTLESS</b>  <b>Key Strategies</b> Start with the Basics Transformation Strategies	<b>MISALIGNED</b>  <b>Key Strategies</b> Culture Training Outside Partnerships
		Low Level of Readiness	High Level of Readiness
<b>Organizational Readiness</b>			

The overarching strategy and tactics for driving innovation will depend on where your organization falls inside the grid and spectrum. We locate the organization on this map, which is divided into four quadrants with corresponding strategies for each.

Four archetypes are labeled as such:

**Vibrant** – a high level of both individual and organization innovation readiness. The key here is to build on success, design constructs that reward your champions to prevent boredom, and feed the edge organizations.

**Listless** – a low level of both categories; organizations here lack the foundation for innovation and require similar interventions to those undergoing complete organization transformations. They are “innovation turnarounds”.

**Disenfranchised** – a low level of organizational readiness combined with a high level of individual readiness. Organizations here are bureaucratic, ripe for turnover, and will lose their best talent and ideas without a purposeful intervention.

**Misaligned** – a low level of individual readiness yet a high level of organization readiness. Companies here need to focus on infusing their organizations with the proper modeled behavior and talent as quickly as possible.

## SUCCESSFUL TRANSITION TO INNOVATION

Successful transition to a vibrant innovation organization requires different strategies and tactics depending on where an organization finds itself on the assessment grid.

Those in the upper right quadrant, want to sustain or accelerate their progress; those in the bottom left may find themselves needing a full transformation.

**When an organization maps its existing portfolio areas, by volume and contribution margin, against the innovation map, it can often find alarming correlations – areas that it depends upon to drive margin in the hospital through innovation, are woefully unprepared to do so.**

There are specific tactical applications for innovation, found in the most organizations that are appropriate depending on the situation, internal capacity and resources. Some of these are summarized below:

### Start with the Basics

#### Case Study – Experimentation and Partnership

The Cedars-Sinai Accelerator is a three-month program, based in Los Angeles, California, that provides companies with \$100,000 in funding, mentorship from more than 300 leading clinicians and executives, direct access to Cedars-Sinai, and exposure to a broad network of entrepreneurs and investors. New stage companies locate in the Cedars-Sinai Innovation Space, adjacent to the medical center in Los Angeles and are exposed to an international network of healthcare entrepreneurs and investors, in addition to being part of Cedars-Sinai alumni community of healthcare entrepreneurs. Some organizations can test their product inside the Cedars' hospital, effectively accomplishing in a few months what would normally take a couple of years. The program concludes with a demo day, where each company will have the opportunity to pitch their company to healthcare leaders, investors, press, and other community members.

The foundation must exist before the house can be built. If starting from scratch, or if you find yourself with a low level of organizational competence, experience and readiness then start with these three elements from the High Performing Practices: strategy definition; governance processes, design approach.

#### Partner to Expand the Ecosystem

Many organizations struggle to find the right technology and right resources to make a meaningful impact, and few in healthcare have the scale needed to make the right impact. You cannot assume your organization has a monopoly on smart people. Large scale partnerships, creating multiple touch points, or investing in a “fund of funds” is one way to create meaningful impact. There are many ways to perform the tech scouting role – incubators, relationships with venture capital

organizations, accelerators, joint ventures. Don't go it alone.

### Conduct Specific Training for Readiness and Adoption

As a part of a cultural shift, the organization should purposely invest in training designed to improve hard skills in subjects that will support the innovation ecosystem, across all disciplines in the company. These include ensuring managers and executives have a fundamental understanding of how emerging technology works and how it can strategically enable their operations: AI, machine learning, blockchain, and virtual reality are starting points for those in healthcare as well as workshops in design thinking and human centered design approaches. The CB Insights survey reported that high performing companies are five times more likely to invest in innovation across multiple disciplines.

## Create an Edge Organization

Often the best option for mid to longer term, disruptive innovation is creating and scaling at the “edges” of the organization. To do this, you identify a promising aspect of your current business that if scaled can either allow you to enter new markets or potentially grow so fast, the edge becomes the new core of the business. For this to occur, there are many elements that must come together, such as:

### Case Study – Edge Organization Implementation

When the Army first reorganized its concepts, science, and acquisition entities into a single command, it largely only changed organization structure. To fuel innovation, it created two separate and complementary “edge organizations”, the Army Applications Lab and the 75<sup>th</sup> Innovation Command, to operate outside of the traditional bureaucratic structure and processes. The mission of these organizations is, in part, to curate problem statements and sponsor innovation events, partnering with smaller companies in the technology and innovation space, outside the traditional defense contractors. Using unique contracting methods authorized for this type of organization, together with its small size, speed in decision making and proximity to start ups, the Army to been able to accelerate the adoption of technology into the military as well as increase the defense industrial base.

- *Proximity* - the edge is normally separated, physically and otherwise, from the main business
- *Resources and Governance* - a decision as to whether the edge leverages resources from the main business or not, and the governance rules for that
- *Scale* - rules for how you can operate this edge as a scalable learning business
- *Reintegration* - you must think through how you will reintegrate an edge and core, so there is not cultural dissonance.

### Have Existing Business Units Fund Innovation

An alternative approach to funding an edge enterprise is to create a governance process that allows your existing business

units to fund your innovation practices or your edge enterprise, much in the same way that a venture fund would fund a start-up. While segregating the edge from the core allows the edge to grow without risk of being killed by politics and bureaucracy, the segregation of innovation efforts from the line and staff leaders in the organization can also result in a lack of linkage or support back into the core. One method we have seen that is effective is to ensure problem statements are nominated from the business units and that the business units fund, to some level, the tech scouting or innovation experiments that are conducted by the innovation unit. This construct makes the edge operate independently but with a natural customer linkage and accountability; if the edge does not produce, the funds are cut. The obvious risk to manage is that the core business units may not have the wisdom or incentive to invest in edge capabilities that could displace the core.

## PREPARE TO OVERCOME THE CORPORATE IMMUNE SYSTEM

Regardless of the strategies and tactics employed, you should expect push back from the organization in the form of the Corporate Immune System. My colleague Jay Zerwekh has written extensively on this issue. He points out key actions to take to neutralize the CIS that are applicable for creating a culture of innovation:

- Create a climate of safety to disagree or challenge ideas that are presented within the executive team regarding your approach. If group members cannot constructively and honestly disagree within the group, they may act out “underground” and activate the Corporate Immune System, blocking momentum or killing initiatives.
- Create a “you have no choice but to change” moment in your organization. Change happens when people realize their current reality will not continue and there is no choice but to change.
- Understand the financial, operational and behavioral consequences of your proposed change. This understanding should be underpinned by robust models whose assumptions have been adequately

stress tested. At the individual level, people want to know how these changes will impact them personally, in their day to day life.

- Create a structured engagement strategy. An organization that is “all in” with a new initiative or innovation will devote the necessary time and energy for an organization-wide engagement strategy.

## SUMMARY

New technology, new speed of change, and new competitors are headed your way. Some could be a resource giant like Amazon, a consolidating system, or some may be a well-funded private equity group led by physicians ready to take away your highest margin service lines. Executing block and tackle operations is mandatory. An innovation strategy that looks beyond the next quarter is also paramount. In the provider space today, many attempts are well meaning but ineffective. Some organizations are so mired in the day to day details, they cannot lift their heads up to see the on rush of possibilities. Success requires a fresh start, an understanding of where your company truly is, a strategy for leveraging technology, and the development of a culture of innovation that will unleash the creative spark in your employees.

To get started and prepare your organizations internally, systems should look at two principles. First, start to prepare your employees with skill-based training so that they become conversant in innovation and technology and its impact across all functions. Second, prepare your organization for the inevitable culture clash; as innovation forces changes to systems, skills, competencies, style and strategy, the Corporate Immune System – that thing that lurks in every organization - will emerge and try and snuff it out change. One needs a strategy for overcoming that.

## ABOUT OUR EXPERT



Boe Young is the Chief Operating Officer and Executive Vice President with Galloway and has personally led new CEO/senior executive transitions in five private and public-sector organizations. He was the founding leader of the Army’s 75<sup>th</sup> Innovation Command, designed to accelerate private sector innovation and technology into the military. He also was the senior army representative for the Defense Innovation Board, the DoD’s leading institution for driving disruptive innovation inside the DoD. He has commanded a battalion in combat, has two master’s Degrees, including an MBA from Goizueta Business School at Emory University, and over 25 years of senior executive profit and loss experience. He was a Major General in the US Army Reserve where he commanded the Army’s largest organization for training senior executives and their teams to perform in a cohesive, synchronized and effective manner and served as the Reserve’s senior human resource executive for over 200,000 individuals. He has worked with leading healthcare organizations on organization restructuring, strategy implementation, governance, performance improvement, efficiency and executive leadership.

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