

# The Executive's Field Guide to Disruptive Innovation

Disruptive innovation is changing the health care landscape. Executives must answer **three key questions** to identify how their organizations should respond to disruptive innovation.

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## How can our organization get more comfortable with risk?

Health care disruptors threaten incumbents' business models. To compete, your organization needs to cultivate greater willingness to take business risks. The two options below can be pursued individually or simultaneously.

### Build an innovation center

An innovation center is a separate subsidiary from the hospital or health system. Its purpose is to cultivate new-in-kind ideas. If your organization is pursuing an innovation center, avoid these three common pitfalls:

- ⚠ Innovation centers are either too connected or too separate from the organization**  
It's critical to strike the right balance. Innovation centers should be able to implement innovations in the health system without being overly constrained by organizational culture and finances.
- ⚠ They're too focused on the status quo**  
To avoid this pitfall, limit the number of innovation projects focused on solving current organizational problems. Assign time and resources to projects that target tomorrow's business needs.
- ⚠ They're measured by traditional performance metrics**  
Instead, identify new performance metrics that incentivize risk-taking. For example, the number of external partnerships sourced and vetted, the percentage of projects devoted to creating new business, and the number of projects that deliver first mover advantages.

### Build a culture of risk-taking

Health care executives and staff are often justifiably risk averse. However, this mentality can prohibit leaders from taking necessary business risks to help their organizations succeed. There are three ways to reframe failure and embrace risk:

- 👤 Incentivize risk taking**  
Design KPIs and performance metrics to incentivize risk-taking.
- 👤 Celebrate productive failures**  
Challenge the stigma of failure by sharing those that are productive and reframing them as lessons learned for future success.
- 👤 Quickly move on from failure**  
Avoid further sunk costs by embedding regular prompts to assess risky decisions and quickly acknowledge failures.

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## How should we evaluate the market for emerging disruption?

There are too many emerging innovations to stay up-to-date on all of them. Below are four signs that will help you identify the most disruptive innovations in your market.

### Unmet need

Consumers may or may not be aware of a need that is unmet by current services. Monitor these three types of unmet needs:

- 👁 Price**  
Consumers believe existing products or services are overpriced compared to their value. The high price excludes a large segment of the market.
- 👁 Functionality**  
Consumers have valid complaints about functionality of current services, even when they lack other options.
- 👁 Convenience**  
Consumers can't easily access existing products or services.

### Increased market experimentation

Look for three signs of increased experimentation or innovation funding within the market:

- 👁 Zombie startups**  
More failed startups signal a chance for larger firms to intervene and scale disruptive innovations.
- 👁 Mergers and acquisitions**  
Acquisitions, often of small firms, highlight corporations' interest in market expansion.
- 👁 Startup funding**  
An increase signals growing interest in a field and investor willingness to fund innovation.

### Presence of enablers

Enablers allow an innovation to succeed. Ask three questions to evaluate the presence of enablers:

- ❓ Does the innovator have the raw materials to create the innovation?
- ❓ Can the innovator access the right connections and materials?
- ❓ Can the innovator sustain profits from the innovation?

### Policy

The political landscape can inform disruptive innovation. Ask two questions to assess the impact of policy:

- ❓ Does current policy promote or create space for market experimentation and innovation?
- ❓ Does current policy disrupt innovation by hindering take off?

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## When and how should our organization enter the fray?

You won't always have the luxury of choosing how and when to enter the fray. Some innovations may require an immediate response. But when you have the choice, focus on three factors to assess when and how your organization should respond to disruptive innovation.

### Your organization's strategic goals

Respond to disruptive innovations that directly affect key strategic goals. Focus innovation efforts in two areas:

- 🎯 Where your current performance is farthest from desired.
- 🎯 Where your desired performance is already strong and could be market-leading.

### Size and risk of the opportunity

When you're conducting an opportunity analysis, focus on how an innovation will impact:

- ❓ **Market share**  
Ask questions about how your response to the innovation could differentiate you in the market.
- ❓ **Cost structure**  
Ask questions about the upfront cost and whether there are cheaper alternatives.
- ❓ **Revenue streams**  
Ask questions about the value provided to consumers and potential new revenue streams.
- ❓ **Clinical outcomes**  
Ask questions about validation methods and how the innovation will impact clinical outcomes.

### Existing organizational capabilities

Assess four areas of your current capabilities to understand where you may have gaps as you respond to the disruptive innovation:

- ⚙ **Workforce**  
Consider staff skill set, availability, and headcount.
- ⚙ **Financial**  
Consider allocated funds for implementation, roll-out, and sustainment.
- ⚙ **Structures and systems**  
Consider technological alignment, physical space, additional needed technology, privacy and security, communication systems, and supplies.
- ⚙ **Cultural**  
Consider staff buy-in, change resistance, values, and organizational identity.

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