



The purpose of this white paper is to provide a broad conceptual framework and international context on innovation in business, healthcare, and philanthropy to help inform discussions of the specifics of the Alliance Healthcare Foundation Innovation Initiative. The definitions of innovation, technology, partnership and impact can be guided by this information to provide direction to potential applicants.

What is Innovation?

Innovation is more than just a new idea, process or product. Innovation is an orientation, if not a philosophy, to solving challenging problems without relying on old ways of thinking. Innovation creates unusual solutions by engaging creative, usually cooperative, thinking in brand new ways.

Innovation is simply defined as “the introduction of something new,” a product or process that is new, or that makes a significant change to an existing product or process. But these definitions do not begin to capture the creative mindset and organizational capacities required to turn innovative ideas into scalable, replicable products that the market will reflexively consume. Fast Company defines innovative businesses as creative, with “real-world impact, far-sighted risk taking and paradigm-busting execution.”¹

Business leaders further distinguish innovation as distinct from invention. Inventions are ideas made manifest while an innovation is an idea applied successfully in practice. “An idea or improvement is only an innovation when it is put to use and effectively causes a social or commercial reorganization.” In innovation, execution and market success are as important as creating something “new.”

“Never before in history has innovation offered promise of so much to so many in so short a time.”

- Bill Gates

While the goal of innovation is positive change, to increase value, customer value or produce value, innovation may also have a destructive effect as old processes or models are destroyed and replaced by new, more effective systems. Revolutionary or discontinuous innovation disrupts usual ways of doing business or behaving to create a new, more efficient or productive form of acting.

¹ Fast Company, The World’s 50 Most Innovative Companies, March 2010, p.14. www.FastCompany.com



To stimulate innovation, many foundations are using capital investment and competition. In 2004, the X-Prize Foundation offered \$10 million to the first company that could build and launch a spacecraft carrying three people to 100 kilometers above the earth's surface within two weeks. The winning company beat out 25 other teams, and the award launched a new revolution in competition-driven innovation. The X-prize Foundation now supports X-prize competitions in many sectors, including the life sciences. Corporations, government agencies and foundations have also begun to use this powerful mechanism to grow cross-sector, short-timeframe innovative solutions to a wide range of problems.

Social Innovation

In recent years, social innovation has evolved as a powerful application of innovation to solving human social problems, from healthcare to poverty. Many large foundations, including the Skoll Foundation, McArthur Foundation, and The California Endowment, have focused their philanthropy on social innovations designed to improve the human condition, to improve the non-profit sector, and to build stronger communities.

Social innovation is most frequently applied to address social and healthcare problems in developing nations. The Bill and Melinda Gates Foundation, for example, dedicates millions of dollars annually to stimulate innovative healthcare solutions in third world countries. To support and expand this global solution building, partnerships of corporations, governments, non-profit organizations, and philanthropies are being created around the world, and conferences are being held to support these partnerships and the action they stimulate. The Ashoka and Lemelson Foundations recently partnered with the Microsoft Corporation to convene thought leaders in the fields of technology and invention to stimulate global social innovation. The World Bank is another international agency pouring millions of dollars to encourage social innovation. This approach to solving challenging human issues through innovation is only expected to grow in the coming decade.

Social capitalism is another rapidly-evolving application of innovation to solve social problems. Fast Company recently named five social capitalists who will "change the world" in 2010.² These innovators have developed creative solutions to challenging social issues, such as sustainable farming, infrastructure development in Haiti, and a microfinance organization that provides college funds for children in third-world countries. These programs exemplify the power of combining business principles and the entrepreneurial spirit to solve large scale social challenges.

"Social entrepreneurship is the practice of responding to market failures with transformative and financially sustainable innovations aimed at solving social problems."

- Ashoka Foundation

Alliance Healthcare Foundation is bringing the ideas of social innovation and public-private partnership to the greater San Diego region by making a significant investment in an innovation that holds the promise of reinventing healthcare delivery for vulnerable populations in the region.

² <http://www.fastcompany.com/node/1532446/print>

Innovation and Partnership

Current thinking on innovation has moved beyond prior notions of innovation as only involving technology or about processes that are solely driven by market needs, to combine both elements to create something more powerful. This new approach confirms that “innovation does not just happen within the industrial supply-side or as a result of the articulation of user demand, but through a complex set of processes that links many different players together- not only developers and users but a wide variety of intermediary organization.”³ These partnerships of unusual partners are also called an “extended enterprise” when integrated into an existing organizational structure.

More and more corporations are investing in these extended enterprises to build networks of alliances, even with competitive firms. These innovation networks are said to ramp up innovation by providing “a web of people, institutions or companies outside of a firm that help it solve problems or come up with new ideas.”⁴ The firm InnoCentive has capitalized on this new trend to provide on-line opportunities for researchers and corporations to partner in cyberspace to solve specific problems and, potentially, win significant funding. Research on the InnoCentive process is showing that “the background of the solver who solved the problem was no less than six disciplines away from the subject area in which the problem emerged.”⁴

While collaboration is not new, the breadth of the connections and the diversity of partnerships are new and are stimulating rapid applications of innovations to the marketplace. Even in the defense industry, for example, “co-opetition” has become a fact of life. Many of the largest defense contractors are now partnering with their competitors to create and build innovative military solutions. Nevertheless, these partnerships present challenges that must be addressed in order to build effective innovation networks, especially in the social sector, for the long-term.

Solutions may be found as far as six disciplines away from the subject area in which the problem emerged.

Innovation in Healthcare

Many analysts are encouraging the application of innovation to solve the challenges of the U.S. healthcare system. They believe that disruptive innovation is needed to fix the ailing health system, with a focus on making healthcare more affordable and employing a new business model.⁵ This approach addresses one of the main barriers to system reform, which is that the healthcare system is built on a business model from the 1950s. The current structuring of hospital and physician reimbursement, for example, is “the

³ Wikipedia. <http://en.wikipedia.org/wiki/Innovation> Accessed 4/20/10.

⁴ Innovation: Sometimes it Takes a Village, June 24th published by Knowledge@Wharton.

<http://knowledge.wharton.upenn.edu/article.cfm?articleid=2272>; The Value of Openness in Scientific Problem Solving, by K. R. Kakhani and L. B. Jeppesen, P. A. Lohse and J. A. Panetta, in Harvard Business School Working Papers, January 2007. <http://hbswk.hbs.edu/item/5612.html>.

⁵ Will Disruptive Innovations Cure Healthcare? By C. M. Christensen, R. Bohmer and J. Kenagy. Harvard Business Review, September-October 2000; Disruptive Innovation in Healthcare delivery: A Framework for Business-Model Innovation, by J. Hwang and C. M. Christensen. Health Affairs, Volume 27, Number 5, pp. 1329-1335.

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healthcare equivalent of piecemeal, so there is no incentive to keep patients healthy.”⁶ According to research by the National Research Council, innovation in healthcare is constrained by a number of additional factors, as well, such as the lack of information systems needed to evaluate new interventions and the absence of appropriate incentives for the diffusion of high-value innovation.⁷

So how can innovation be supported in the current environment of rapid healthcare change? And how can innovation in the public healthcare sector be supported through partnerships between the entrepreneurship and non-profit sectors? The Harvard Business Review has identified three types of innovation that can improve healthcare and make it more affordable: 1) change the way consumers buy and use healthcare; 2) use technology to develop new products or otherwise improve care; and 3) generate new business models, particularly those that vertically or horizontally integrate healthcare organizations or activities.⁸ While this is a logical approach to healthcare innovation, there are numerous other ways of looking at the problems and solutions which may be applicable.

Alliance Healthcare Foundation will support an innovation in the healthcare delivery systems serving the underserved in San Diego.

Examples of innovation in healthcare consumer services include becoming more efficient or user friendly, such as developing methods for reducing wait times for appointments or inefficiencies once the patient is in the office. Examples of technology innovation in healthcare include implanted sensors to help patients monitor their diseases more efficiently, and information technology that connects different sources of patient information and keeps providers informed of services. Examples of business innovation include vertical integration of healthcare providers that care for a particular disease into one organization. For example, a center for diabetes that includes ophthalmologists, podiatrists, cardiologists and other providers who care for diabetics.

Innovations in public health are being pursued along similar tracks. Major experiments in reforming the delivery and financing of Medicare-funded services to seniors are underway. The Agency for Healthcare Research and Quality is studying systems-based changes in primary care which are expected to lead to enhanced access to care and improved outcomes for HIV patients, for example. The Institute for Healthcare Improvement and the Robert Wood Johnson Foundation, two major leaders in healthcare improvement in the U.S., are working to stimulate health system innovation and improvement.

Technological advances in public health include the new One E-App technology that allows low-income residents of California to apply for multiple public programs and services through a single on-line application portal. Nationally, the Text4baby program was recently launched, with support of the White House, as a free mobile information service that provides timely health information to women from early pregnancy through their babies' first year. In California, tele-health is being vigorously supported to meet the needs of low-income, uninsured and non-English speakers in rural and urban areas. These technological approaches are just recent examples of innovation in California, but innovation in public

⁶ Disruptive Innovation, Applied to Healthcare by Jaent Rae-Dupree, <http://www.nytimes.com/2009/02/01/business/01unbox.html>.

⁷ National Research Council, Medical Innovation in the Changing Healthcare Marketplace. National Academy Press, Washington, DC. 2001.

⁸ Why Innovation in Healthcare is So Hard by Regina E. Herzlinger, Harvard Business Review, May 2006.



health does not necessarily require technology. Healthcare improvement must address larger systems issues, including the coordination of care delivery, financial reform, governance improvements, and improvements to the quality of care management and delivery.⁹

New business models that will support efficiency and reduce cost are being explored in the public sector through application of lean management principles and similar business efficiency models to healthcare delivery, as well as co-location of care and cross-disciplinary centers of care. These, and other innovations, are examples of what can be done through innovative thinking and unusual partnerships. Alliance Healthcare Foundation is interested in imaginative innovations that directly impact vulnerable populations in the San Diego area and that can be implemented rapidly.

Innovation and Diffusion

Once innovation occurs it must be spread to the users or markets it is intended to improve. Diffusion is “the process by which an innovation is communicated through certain channels over time among members of a social system.”¹⁰ The Institute for the

Future provides guidance for the diffusion of innovation in healthcare, recommending ten dynamics of basic innovation diffusion to assure success.¹¹ Alliance Healthcare Foundation’s Innovation Initiative grant will fund a project that is innovative and can be rapidly scaled and diffused effectively to other communities.

Why Does Alliance Healthcare Foundation care about Innovation?

Alliance Healthcare Foundation is dedicated to improving access to needed healthcare for vulnerable populations by using innovation, technology, and other approaches that will lead to long-term change in the healthcare system, not small changes to a system that doesn’t work well.

Innovation normally means doing things better, smarter, more efficiently. In the business world, particularly manufacturing, significant resources are devoted to these efficiencies. “The not-for-profit or public benefit sector sees no such support: there are many social entrepreneurs but most funders seek ‘safe’ projects. There is little risk-capital and even less

willingness to accept some ‘failure’ as the price of path-breaking innovation.”¹² Alliance Healthcare Foundation is providing support to encourage path-breaking innovation in the public-private sector.

Alliance Healthcare Foundation is interested in supporting innovation in healthcare access that addresses their strategic priority, which is defined as, **“Access to health(care), with a focus on increasing the capacity and coordination of the healthcare delivery system.”** Alliance developed the Innovation Initiative to advance this strategic mission by supporting

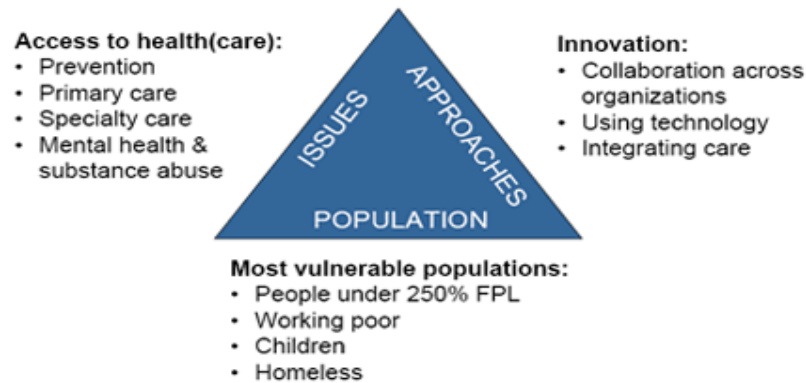
⁹ Report on Leading Practices of Public Safety Net Healthcare Delivery Systems in the United States. By Price Waterhouse Coopers, with funding from a Task Force of the California Endowment.

¹⁰ Diffusion of Innovation in Healthcare, prepared by the Institute for the Future for the California Healthcare Foundation. May 2002.

¹¹ Diffusion of Innovation in Healthcare, prepared by the Institute for the Future for the California Healthcare Foundation. May 2002.

¹² McConnell Foundation. www.McConnellFoundation.ca

transformational thinking and action to improve the way healthcare is delivered. Alliance is interested in innovation solutions that address local healthcare access issues, reaches the target population and uses innovation effectively, as defined in their strategic plan in the following diagram.



Why Innovation Now?

Some say it is opportunity, not necessity that is the mother of innovation. If this is true, there may never be greater opportunity or need for innovation in the healthcare sector. In terms of opportunity, healthcare reform has become reality and some version of it will be implemented in years to come in the United States.

The last year of national healthcare reform debate has provided a thorough examination of the elements of the healthcare system that don't work and which can or should be modified, from financing to technology. With healthcare costs at more than 17% of the GDP, projected to be well over 20% in the near future, there has never been greater need for innovation in the healthcare delivery system.

Moreover, there has perhaps never been a more fertile time to support innovation and public-private partnerships as innovation has become one of the most popular business buzzwords driving not only the organization of business but venture and philanthropic capital investment.

Alliance Healthcare Foundation is pleased to contribute to these global investments in problem solving, particularly in healthcare.

For more information on the Innovative Initiative please visit the Alliance Healthcare Foundation website: www.Alliancehf.org.

Alliance Healthcare Foundation gratefully acknowledges the assistance of Harder +Company Community Research in the development of this white paper.