



# In pursuit of innovation: A CEO checklist

Across industries, organizations are recognizing that, to thrive, they may need to invest in innovation. Such is the case in health care, where the need to innovate is an important response to a rapidly changing environment—one in which the status quo is challenged by industry newcomers and shifts in the business of care delivery. Today’s health care organizations (both new entrants and longstanding establishments) are exploring new innovation strategies to create value and sustain competitive advantage. Chief Executive Officers (CEOs)—together with their boards of directors and clinical leadership—should determine if they are prepared to maximize the impact of their innovation investments.

Organizations should consider pursuing an integrated approach to innovation that marries the opportunity of incubating potential breakthroughs with the responsibility of optimizing existing core business. Exploring new ways of thinking about emerging health care trends is a critical element of this approach. Context, purpose, and end goals are important, as well.

A company may leverage innovation to:

- Redefine markets by developing disruptive and transformational products or businesses to serve new markets and new customers;
- Introduce incremental changes that differentiate the organization from competitors by expanding into adjacent areas; or
- Seek steady improvements by optimizing existing (core) products for existing customers.

What do successfully innovative organizations have in common? They have instituted a system of innovation built around four key components:

- Approach
- Organization
- Resources & competencies
- Metrics & incentives

Doblin, a leader in global innovation and part of Deloitte Consulting LLP, found that these components are present in 92 percent of innovative organizations. Doblin’s conclusion is based upon third-party analysis of organizations in 25 industry sectors—each had an average 15 percent annual growth rate and outperformed the NASDAQ and S&P over a 10-year period.<sup>1</sup> The four components serve as the foundation of a “A CEO checklist” – a toolkit for leaders to determine if their organization’s approach to innovation measures up to that of demonstrably successful innovators.

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**Is your organization on the path to pursue innovation?  
Use this checklist to help find out.**

<sup>1</sup> In pursuit of innovation: A CEO checklist

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## APPROACH

### Innovation strategy

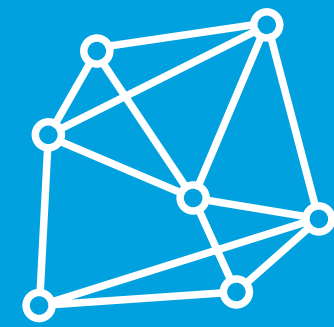
- Does your organization have an innovation strategy that clearly identifies what you are trying to accomplish?
- Does your strategy include priorities based on strategic imperatives to respond to marketplace opportunities and competitors?

### Pipeline & portfolio management

- Does your innovation strategy reflect long-term goals balanced with a propensity for risk?
- Do you have transparency around your portfolio and pipeline?

### Process

- Do you have a defined process to incubate ideas, sort and test them, and launch the ideas that are most promising? Is learning from failure built into your process?



## ORGANIZATION

### Senior leadership

- Do your senior leaders serve as champions of innovation activities?

### Governance

- Who in your organization makes innovation-related decisions?
- Is there a clear process for encouraging, vetting, and implementing innovative ideas?

### Collaboration

- Has your organization made collaborating with external experts or non-traditional partners a priority?
- Do you have mechanisms for pursuing innovation that requires collaboration across business units?



## RESOURCES & COMPETENCIES

### Funding

- Do you have a transparent funding approach to make innovative ideas a reality?
- Is the funding able to balance the different needs of your core business with your higher ambition for innovation?

### Talent management

- Do you have specific talent priorities for specialized innovation experience (e.g., user insight, design skills, etc.)?
- Do you cultivate diverse talents?

### Innovation tools

- What is in your innovation toolbox?
- Do you have specialized protocols, software, techniques for different aspects of innovation?
- In other words, how do you manage ideas?



## METRICS & INCENTIVES

### Financial & nonfinancial rewards

- Do you reward key drivers of innovation success (e.g., novel ideas, pilot executions, etc.)?

### Innovation metrics

- Do you have defined metrics around innovation?
- Are these metrics communicated across every level of the organization?

### External attraction

- Do you have a process to foster and incent other organizations or groups to participate in innovating on your platforms?



## Defining innovation

There are many ways to define innovation. According to Doblin, innovation is the creation of a viable new offering:

- **Innovation is not invention.** Innovation may involve invention, but it requires many other things as well – including a deep understanding of whether customers need or desire that invention, how organizations can work with other partners to deliver it, and how it will pay for itself over time.
- **Innovations have to “earn their keep.”** Simply put, innovations have to return value to the enterprise. Doblin defines viability with two criteria: the innovation must be able to sustain itself and return its weighted cost of capital.
- **Very little is truly new in innovation.** Too often, it can be difficult to appreciate that most innovations are based on previous advances. Innovations do not have to be new to the world – only to a market or industry.
- **Think beyond products.** Innovations should be about more than products. They can encompass new ways of doing business and making money, new systems of products and services, and even new interactions and forms of engagement between an organization and its customers.

Source: Larry Keeley, Ryan Pikkell, Brian Quinn, and Helen Walters, *Ten Types of Innovation: The Discipline of Building Breakthroughs*. Page 5. (Hoboken, New Jersey: John Wiley & Sons, 2013).

Michael Raynor, co-author of *The Innovator’s Solution*, defines innovation as, “Any combination of activities or technologies that breaks existing performance tradeoffs in the attainment of an outcome, in a manner that expands the realm of the possible.”

Source: Michael E. Raynor. *Introducing perspectives on innovation*. Deloitte University Press. April 30, 2013. Available from: <http://dupress.com/articles/introducing-on-innovation>

## What are key elements of a successful innovation program?

Innovation is not just about developing new products and services. It can apply to many aspects of an organization—which other entities it partners with, how it positions itself in the market, how it creates relationships with customers, and how it gets work done. This checklist shows the development of innovation capabilities across four components. All four components work as an integrated system—or blueprint—to drive innovation reliably and repeatedly.

The following sections describe the four components, each with three levers, with short examples and case studies from across health care to illustrate the concepts.





Approach is the first component of the checklist. An organization's approach is its method for establishing clear definitions for the work to be done in creating innovations—the phases, activities, deliverables, and decision rights. Unlike traditional operational improvements that value predictability, breakthrough innovation requires an experimental, iterative approach. Innovative organizations expect that some of their ideas will not be successful and they tolerate—even commit to learning from—some failures. Teams responsible for implementing an innovation strategy should follow a nonlinear path, discover surprises and explore left turns. But, they can do so in a disciplined way that is guided by rigorous protocols, clear phases, methods, and tools. The three levers of the approach component are **innovation strategy, pipeline & portfolio management,** and **process.**

**Innovation strategy: Clearly articulating what the organization is trying to accomplish.**

An organization's innovation strategy often includes designating priorities based on strategic imperatives to respond to marketplace opportunities and competitor activity.

**Example:** New Jersey's largest integrated health care delivery system, Barnabas Health, has an innovation strategy that combines information technology with care delivery methods to help providers improve patient care. Barnabas Health has defined a five-year operational and strategic plan that aims to transform the organization into a data-driven clinical and business environment that is focused on quality and improving health outcomes. This strategic plan is one way Barnabas Health is expanding beyond the confines of a traditional health care provider.<sup>2</sup>

**Pipeline & portfolio management: How the collection of innovation initiatives are managed in a pipeline and portfolio.**

Integrating the innovation strategy into work streams and making decisions about investments and their likely payoff can form the basis of a product portfolio and pipeline to help the organization achieve its strategic goals.

**CASE STUDY: University of California at Los Angeles (UCLA) Health's innovation portfolio is organized around ideas with the potential to generate the highest return on investment (ROI), as measured by progress towards strategic objectives as a function of investments and time. UCLA Health's Chief Innovation Officer Molly Joel Coye, writing in a Healthcare Information and Management Systems Society (HIMSS) blog, compares an organization's innovation portfolio to an individual's personal investment portfolio. Both entail a mixed approach to investing: combining solid, low-risk options with a few high-risk ventures. For a health care organization, Coye says, building a balanced innovation portfolio is a solid strategy for earning a positive return on the innovation investment.**

**UCLA Health combined its choice of strategic issues to impact—for example, reduce unnecessary admissions through care coordination—with a program design that uses non-clinically licensed health workers to target “hot spotters,” those individuals who are most at risk for admission or readmission. Within six months, the program reduced the rate of hospital admissions by one-fifth while also reducing emergency department (ED) visits.**

**Coye points out that UCLA Health's high-risk (but well-thought-out) innovation strategies—including intensive change management, workflow redesign, hiring and training new types of care coordinators, and physician engagement—achieved significant results. Coye summarizes, “the return on innovation has been remarkable.”<sup>3</sup>**

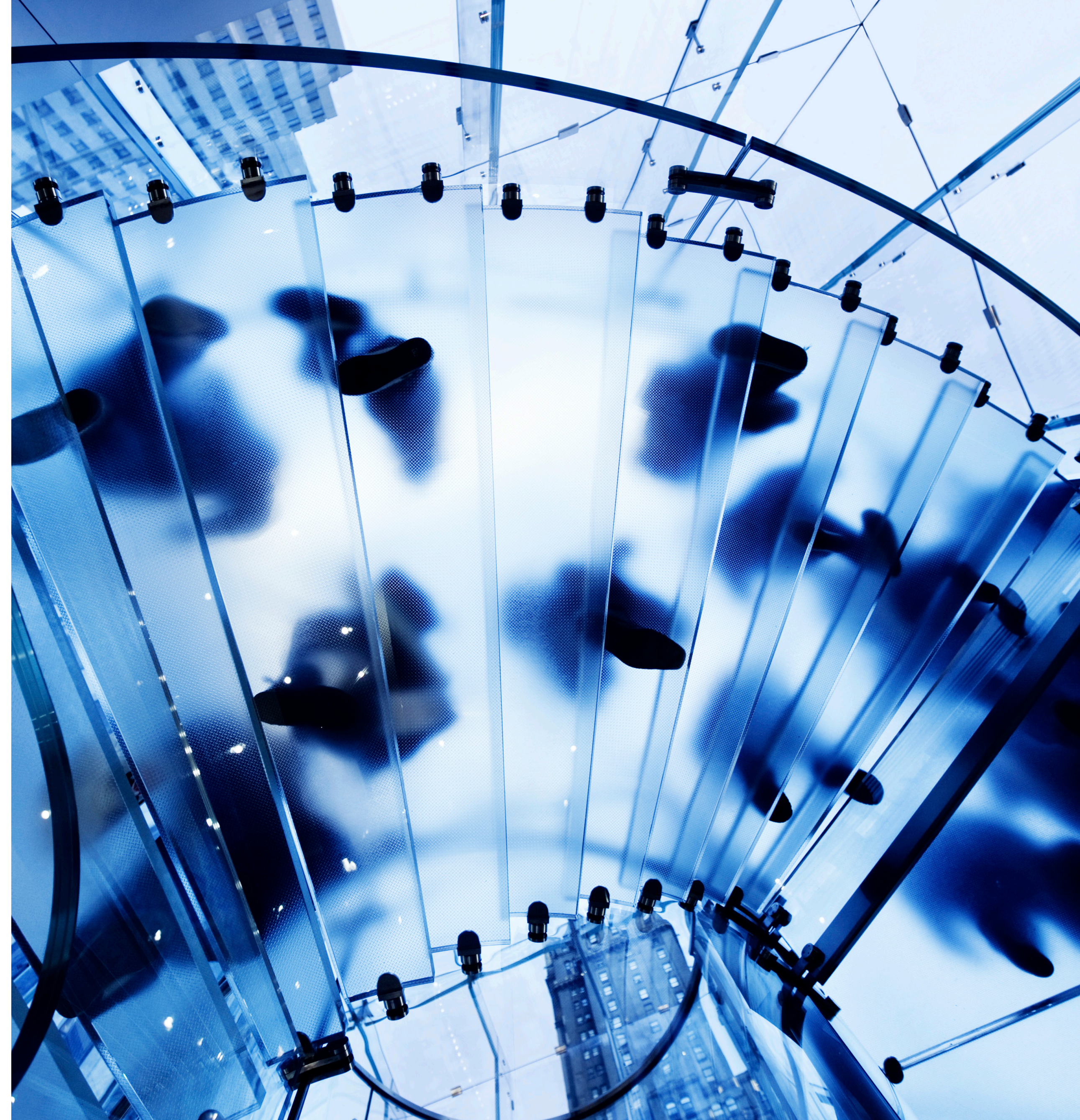


**Process: How innovations move from abstract hypotheses and ideas to launched businesses.**

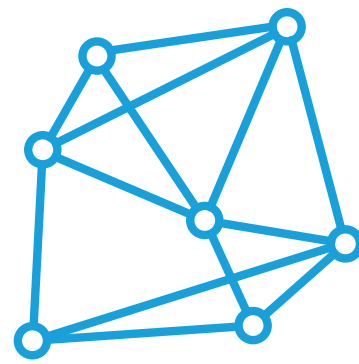
Organizations should consider having a process to incubate ideas, sort and test them, and launch the most promising ones as a product or business. The process also should include learning from failures—an essential part of innovation.

**Example:** Optum Labs was established as an open center for research and innovation through a partnership between Optum, an information and technology-enabled health services business, and Mayo Clinic, a nonprofit leader in medical care, research, and education.<sup>4</sup> Optum Labs brings together a community of health care stakeholders committed to improving patient care by sharing information assets, technologies, knowledge tools, and scientific expertise to speed the time it takes for research findings to be applied to clinical practice. Six core principles, focusing on population health, system productivity, simplifying the complex translation to real-world settings, and commitment to privacy, guide their initiative.<sup>5</sup>

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## Organization

This component describes the units that house innovation competency—teams, divisions, leadership—as well as the connections among those charged with driving innovation within the broader enterprise and the world. Breakthrough innovation is a balancing act between separating from and collaborating with existing business units: it typically occupies a unique space that is free of existing operational behaviors and constraints but connected enough to benefit from organizational scale of the business. The three levers of the organization component are **senior leadership, governance,** and **collaboration.**

### **Senior leadership: How senior leaders engage with innovation.**

Support from senior leadership is necessary to secure the financial investment for innovation, to champion the activity among stakeholders (including the board of directors), and to set the stage and communicate that senior staff will provide resources and time to support those charged with driving innovation forward.

**Example:** Mohan Nair is the Chief Innovation Officer (CIO) of Cambia Health Solutions, a nonprofit parent and holding company headquartered in Portland, Oregon. Cambia Health Solutions comprises more than 20 companies that provide various health care solutions. Nair says that, to overcome resistance to new ideas, the CIO must report to a committed, values-based CEO that can create the conditions within the organization for all to play at their highest level.<sup>6</sup>

### **Governance: How and by whom innovation decisions are made.**

Innovation activity can be structured in ways to suit a particular organization's needs; however, regardless of approach, stakeholders (the CEO, board, innovation leaders) should consider aligning who will make decisions regarding priorities and directions, portfolio development, staff, resources, implementation, and the process by which those decisions will be made.

**CASE STUDY—Edison Nation Medical is a health care innovation marketplace and online community that is dedicated to creating more effective, more efficient, and safer health care through innovation. A core principle of Edison's governance process is transparency and trust. This core principle is operationalized by a detailed, secure online submission system that maps out each phase in getting from idea to market launch, and clearly describes how revenues from the resulting innovative product will be shared.**

**Inventors' ideas are vetted through an in-depth, multi-step review process led by Edison's highly skilled medical, product development, and legal experts. The end goal is to license each qualified product idea that is submitted to a medical manufacturer or incubate a company around this innovation. When the ideas are successful, Edison Nation Medical shares at least 50 percent of licensing royalties or provides a significant equity stake in the new company with each respective inventor.**

Edison Nation Medical’s model for governing innovation is distinct because of its trusted and transparent decision-making process. Once an inventor’s idea is submitted through the confidential dashboard, the Edison team has medical, intellectual property, and market commercialization experts carefully review every idea to determine its commercial viability. If the idea is accepted, it goes through an eight-stage process with a transparent feedback loop that involves the inventor at every stage. If the review team thinks the idea has strong potential, Edison’s business development staff works to identify the best-possible path for commercialization. This often includes testing and trialing new innovations with Edison’s numerous health care system and retail channel partners, who often become initial adopters and product advocates.

“Our model is unique in that we enable the individual to take part in the health care innovation process in a significant capacity by breaking down the traditional barriers that have historically inhibited their involvement. These barriers include: 1) access to capital, 2) management and company-building expertise, 3) the risk appetite and sacrifices needed to be an entrepreneur, and 4) access to the health care purchasing supply chain,” states Robert Grajewski, President of Edison Nation Medical. “No longer do you need these things; all you need is just a great idea or invention and we handle the rest.”<sup>7</sup>

**Collaboration: Mechanisms for identifying and leveraging external capabilities, partnerships, and solutions to deliver innovations, as well as mechanisms for pursuing innovation that requires collaboration across business units.**

While many organizations may view innovation activities as an internally driven function, many could benefit from engaging with innovation experts, other innovation centers, and their own customers and suppliers. Entrepreneurial organizations—developed for the purpose of bringing innovations to market—can benefit from the support of venture capitalists and other partners looking to launch new products.

**Example:** Rock Health supports start-up companies in the digital health space by leveraging its resources and connections across medical, corporate, and venture stakeholders as well as providing hands-on strategic support. The company accepts submissions for funding on a rolling basis, with the goal of supporting innovative, early-stage, product-centric ideas that aim to solve health care’s most pressing problems. The young companies benefit from Rock Health’s funding as well as its many partners.<sup>8,9</sup>

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## Resources & competencies

Breakthrough innovation requires resources comprised of the individuals who perform the work; the skills, tools, and training they need to perform that work capably; and the funding and time to fuel the work. The three levers of the resources & competencies component are **funding, talent management,** and **innovation tools.**

**Funding: The amount of financial resources devoted to innovation and the mechanisms for accessing the funding.**

Without adequate allocation of financial resources, innovation is unlikely to be realized.

**Example:** Congress established the Center for Medicare and Medicaid Innovation (CMMI) as part of the Affordable Care Act. CMMI received a budget of \$10 billion for the FY2011-FY2019 period—and \$10 billion for each subsequent 10-year period — to test and implement innovative payment and service delivery models. This investment illustrates the government supporting testing and adoption of new care models at a much larger scale than traditional demonstration programs, through a dedicated funding source.<sup>10</sup>

**Talent management: Attracting and deploying people with the right skills at the right time to do the work of innovation.**

At different times in the development cycle, innovation teams may need to call upon the skills of employees with operations, technological, and financial acumen. Participating in innovation activities can be a rewarding experience and provide development opportunities for such employees.

**CASE STUDY:** Many life sciences companies tend to have a vested interest in and a commitment to cultivating a healthy life science–innovation ecosystem. Talented scientists with specific skill sets help drive the research and development (R&D) agenda, and they may not reside in-house. Players in the industry are exploring new approaches to talent acquisition and management, including establishing collaborations with the academic world. The goal of these partnerships is the translation of early-stage discoveries into therapeutic candidates. The Janssen Pharmaceuticals Companies have entered into a number of translational partnerships with academia, including one with Vanderbilt University’s Center for Neuroscience Drug Discovery that has led to the initiation of clinical studies of a novel class of medicines for schizophrenia.

Life sciences companies also can support innovation by transforming the nature of their interactions with potential partners. For example, Johnson & Johnson has established regional innovation centers that will provide direct access to the Johnson & Johnson Family of Companies for local and regional scientists, entrepreneurs, and businesses interested in partnerships. These innovation centers are located in San Francisco, Boston, London, and Shanghai; regions with thriving life sciences communities that use diverse technologies. These initiatives are designed to cut the time and cost of getting potential innovations to patients.<sup>11</sup>



**Innovation tools: Specialized protocols, software, techniques, etc., for different aspects of innovation.**

Technological solutions such as software can be innovative in and of themselves or they can facilitate the implementation of an innovative product, service line, or business. Other tools, such as “hackathons”—brainstorming/problem-solving marathon sessions originated by the software-coding community now gaining traction in health care—can bring many talented people from different disciplines together to work on a problem over a limited time period.

**Example:** Boston’s Brigham and Women’s Hospital’s Brigham Innovation Hub annual health care hackathon aims to bring together forward-thinking minds to change the status quo and create disruptive solutions in health care. The event sets the stage for a diverse, multidisciplinary group to “pitch” problems impacting health care; develop solutions over a two-day period; and present solution demonstrations to a panel of judges for recognition and honors.<sup>12</sup>

Doblin’s Ten Types of Innovation® framework is a simple and intuitive tool organizations can use to both diagnose and enrich an innovation being pursued, or to analyze existing competition.

The framework is structured into three color-coded categories of innovation (as seen on the next page). The categories of innovation are as follows:

**Configuration:** These type of innovations are focused on the innermost workings of an enterprise, including its profit model, structure, and processes.

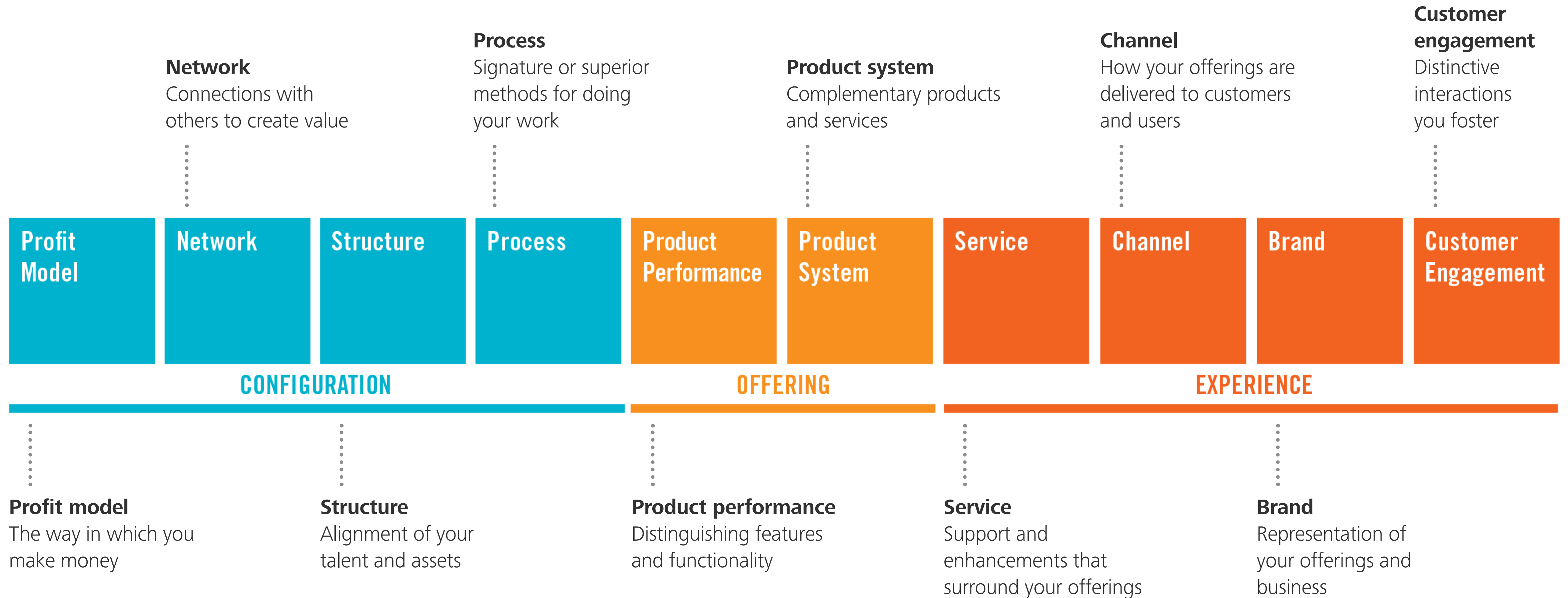
**Offering:** These type of innovations are focused on an enterprise’s core product or service, including its features, complementary products, and distinguishing functionality.

**Experience:** These type of innovations are focused on the customer-facing elements of an enterprise, including its brand, support, service, and customer engagement.

Source: Larry Keeley, Ryan Pikkell, Brian Quinn, and Helen Walters, Ten Types of Innovation: The Discipline of Building Breakthroughs. Page 5. (Hoboken, New Jersey: John Wiley & Sons, 2013).



# The building blocks of breakthrough innovation: Doblin's Ten Types of Innovation® framework



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## Metrics & incentives

This component encompasses the targets to guide performance, the measures to evaluate progress, and the incentives (monetary and otherwise) to drive supporting behaviors. When establishing metrics to measure innovation, organizations should be careful not to pursue only safe bets. To nurture breakthrough innovation should require a mixture of leading indicators (inputs and activities) and lagging indicators (outputs and outcomes), tied to individual and collective incentives. The three levers for the metrics & incentives component are **financial & nonfinancial rewards, innovation metrics,** and **external attraction.**

### **Financial & nonfinancial rewards: Monetary incentives, formal and informal recognition of contributions to innovation.**

Participating in innovation activities can be a reward in itself for talented staff. Furthermore, organizations can create financial incentives, opportunities (through time release and teaming) and prizes to gain people's attention and interest in working on innovation projects.

**Example:** Penn Medicine—the umbrella group that includes the University of Pennsylvania's Perelman School of Medicine and the University's Health System—reversed the typical approach that many health care companies turn to for innovation. The hospital launched a system-wide, *American Idol*-style innovation tournament involving 5,000 employees; the employers voted on more than 1,700 new suggestions. Two ideas won the formal competition. Additionally, the hospital benefited by creating a deep pool of ideas, several of which were ultimately implemented.<sup>13</sup>

### **Innovation metrics: Targets and indicators to guide innovation decisions and measure progress.**

Achievement measures, or ways that teams can recognize success, are an important part of an innovation strategy.

**CASE STUDY—Medtronic's Hospital of the Future uses integrated, technology-based solutions to collaborate with outside experts and enable customers to provide feedback. These solutions include automated inventory management, interactive educational materials, integrated services through Medtronic's Digital Command Center, and remote consulting through high-definition video-conferencing. At a 2014 MedCity CONVERGE conference session, Paul Thompson, director of IT innovation at Medtronic, emphasized the importance of metrics in innovation. Thompson and his team worked for four years to bring the Hospital of the Future concept to life as part of the company's larger push to move from a device maker to a health care services provider.**

**One basic but important measure for Hospital of the Future is the number of people who visit each year; another is the number of patents generated for Medtronic — which currently total around 64 pieces of Intellectual Property (IP) over the last four years. As he discussed metrics, Thompson said that tracking the progress of ideas is key to proving where they originally came from.<sup>14</sup>**

**Medtronic's Hospital of the Future concept was originally designed to reduce the burden on field sales reps, who had limited access to hospitals and device implant events due to patient privacy and security laws. Over time, the project evolved into one that served the needs of health care centers about to undergo change as part of health care reform, advances in technology, and other dynamics.**



## External attraction: How to foster and incent other organizations or groups to participate in innovating on your platforms.

Other organizations—including customers and suppliers—can be important for testing new products and ideas, but they may need a reason to take the time to do this. Various forms of collaboration may be required to gain access to potential users for product testing and evaluation.

**Example:** XPRIZE is a global organization that brings about “radical breakthroughs for the benefit of humanity” through incentivized competition. The inspiration for XPRIZE came from Charles Lindbergh: In 1919, a hotelier named Raymond Orteig offered a reward of \$25,000 for the first nonstop flight between New York City and Paris. In 1927, Charles Lindbergh, considered the underdog, won the prize in a modified single-engine Ryan aircraft called the Spirit of St. Louis. In total, nine teams spent \$400,000 pursuing the \$25,000 prize and, in the process, launched the multi-billion dollar airline industry. The first XPRIZE, the \$10 million Ansari XPRIZE for sub-orbital spaceflight, was announced in 1996 and awarded in 2004. Through this competition, XPRIZE established a philanthropic model demonstrating entrepreneurial investment that results in 10 times or greater return on the prize purse and at least 100 times in follow-on investment and social benefit.<sup>15</sup>

## The Innovation Partnership Program

In 2013, XPRIZE, Singularity University, and Deloitte launched an alliance to spur global economic development and business commerce, while supporting a mission to help humanity solve its greatest challenges. XPRIZE, Singularity University, and Deloitte are leveraging their respective strengths to drive innovation across multiple industries and business sectors.

The inaugural event brought together 60 senior business leaders from 30 companies for an executive summit featuring workshops on crowdsourcing, the rapid advancement of exponential technologies, and how to innovate through incentivized competitions. The event was the first in a multi-year series of events at which Fortune 500 leaders will meet innovative start-ups and entrepreneurs to expand relationships among Silicon Valley, global markets, industry leaders and innovators. The collaboration aims to give its members continuous exposure to the latest thinking and relationships to help them capitalize on innovation-driven business transformation.

For more information, visit <http://www2.deloitte.com/us/en/pages/strategy/solutions/deloitte-singularity-university-xprize-ipp-innovation-partnership-program.html>



## Conclusion

Health care organizations are experiencing new and intensified pressure to experiment, evolve, and bring new products and services to market to meet the dual demands for better care and better value. This means organizations should consider:

- Investing in the design of a whole, integrated system of innovation—not just a collection of parts—to support where the organization is today and, importantly, where it is trying to go.
- Engaging and coaching the different players in the innovation system to cultivate new behaviors and mindsets.
- Applying a new approach to demonstrate visible and meaningful business results.

Innovative organizations have instituted a system built around these four key components of innovation. Executives who are examining their own approaches may want to consider working to identify the levers that are most critical to drive their innovation programs in the near and long term.

# Is your organization on the path to pursue innovation?



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# Deloitte Center for Health Solutions

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## **About Doblin**

Doblin is one of the world’s leading design-driven innovation practices. Taking a user-centric, systemic approach, our multi-disciplinary teams combine strategy, research, and design expertise to help clients set innovation strategy; design, build, and launch bold breakthroughs; and become more effective innovators. Headquartered in Chicago with offices in New York, Toronto, and London, Doblin is part of Deloitte Consulting LLP.