

Rewarding Risk: Business Model for Healthcare Innovation



The Innovation Institute, a for-profit innovation centre is based in La Palma, California and is engaged in fostering the development of new ideas and innovations. Its business model is unique as it centres around a for-profit, limited liability that is owned by nonprofit health systems.

Its business model has the capacity to include seven healthy systems and it currently has four: St. Joseph Health; Marriottsville, Md.-based Bon Secours Health System; Baton Rouge, La.-based Franciscan Missionaries of Our Lady Health System; and Children's Hospital of Orange County in Orange, Calif.

"The business model was structured to be a collaborative that would operate outside of a health system. We didn't want it to be just another innovation centre," Mr. Randolph says. "We wanted to create the right type of environment to advance innovation, and we thought that would be best accomplished outside of a typical hospital/health system model. In order for innovation to thrive, it needs to be in an environment that rewards taking risk and experimenting. Hospitals and health systems tend to be very risk-averse organizations focused on things like Lean, Six Sigma and evidence-based medicine."

In order to be part of the Institute's development projects, the members have to make a minimum initial investment of \$10 million. This gives them access to the Institute's internal network of healthcare, technology and innovative expertise. The in-house team includes PhDs, MDs and MBAs who oversee technology transfer and an initial assessment of ideas. Hospitals generally tend to see the returns on their investments immediately.

The Institute's ideas so far have shown excellent results. Its alliance with Cleveland Clinic has resulted in the launch of 71 companies that are now flourishing and resulted in more than 450 royalty licenses and 464 issued patents.

The Innovation Institute is basically a laboratory that develops ideas, taps into physicians and employees to solve problems and improve care delivery. The centre's Enterprise Development Group is a portfolio of profitable companies that offer services to hospitals and health systems across the country. In addition, there are standalone innovation centres that operate as venture funds. Overall, this business model is independent, financially viable and self-sustaining.

The business model of The Innovation Institute is what Mr. Randolph calls a "perpetual company," since the company's goal is to remain viable and self-sustaining. Unlike many for-profit organizations, Mr. Randolph has no exit strategy. "Our intent is that this will go on for perpetuity for the benefit of nonprofit systems that invest to focus on innovation and growth," Mr. Randolph says.

Source: [Becker's Hospital Review](#)

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