Partnership formation between healthcare organisations and companies: a process model.

SUMMARY

During the SHINE project, KULAK researchers have followed up several pilot cases, studied literature and performed multiple interviews in order to get a good view on why partnerships between healthcare organizations and companies are desirable and how these partnerships are formed.

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Table of contents

Introduction

During the SHINE project, we have followed up several pilot cases, studied literature and performed multiple interviews in order to get a good view on why partnerships between healthcare organizations and companies are desirable and how these partnerships are formed. In this document, we will present our conclusions, which are summarized in a process model.

Partnerships between healthcare organizations and companies: why?

Today, in most of the cases, almost all cooperative arrangements between healthcare organizations and companies are client/supplier relationships, which are characterized by a so-called 'arm's length relation'.. In these cases, the healthcare organization typically experiences a certain problem and explores the market to find a supplier who is able to provide the solution for the problem. Subsequently, the healthcare organization buys or leases the solution and uses it to solve the problem at hand. This situation is however not ideal, from multiple points of view.

The most important reason is that companies try to bring products and services to the market without really having a good idea about what the specific needs of the market are and/or what the specific preferences of the customer are for whom they are developing a solution. Very often, companies develop particular products bring them to the market and find out that the customer is not entirely satisfied with the product, uses the product in the wrong way or that the product does not meet the customer's expectations. Consequently, the product does not bring sufficient value to the customer. This leads to a high average failure rate of new products as shown in Figure 1.

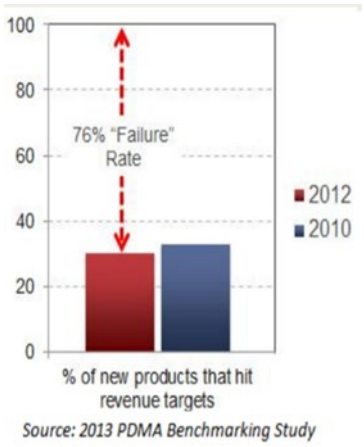

Figure 1 Failure rate new products

This problem can be overcome when healthcare organizations and companies form partnerships. In contrast to arm's length relations, partnerships are collaborative, fluid and evolving and based on the idea of shared risks and shared rewards.

Both parties have knowledge and skills which are complementary. Healthcare organizations have a very clear view on the needs and preferences of the care customer. This market knowledge is crucial for companies (and thus extremely valuable) because it allows them to increase the likelihood of a good problem/solution fit. Another problem many for companies are struggling with is access to the market: at

the moment of commercialization, but also before the commercialization phase, during the product development process.

A practice that has gained much attention recent years is the idea of 'spiral development'. Spiral development refers to the fact that the end user is involved during the product development process and that via rapid prototyping the product is tested by a particular customer group, which gives feedback that can be used to make the product better, i.e. better tuned to the needs and expectations of the customer. This ultimately leads to a product that brings value to the customer and has a lower likelihood to fail.

Healthcare organizations often highly underestimate the value of what they bring to such partnerships. Due to this underestimation, they often give away their valuable knowledge for free to the for profit sector rather than participating in the financial value that can be created with it. To avoid this in the future, the mindset of healthcare organizations needs to change. They have to be aware of their added value for companies in the development of new products and services.

Companies, on the other hand, have access to financial resources and R&D capacity. Since financial resources in the social sector are very limited - a fortiori for strategic product development investments – the company will usually take responsibility for the financial investment needed for the development and the commercialization of the solution. Furthermore, companies typically have much more R&D capacity and more expertise and knowledge about bringing a product to the market and scaling-up a product than a healthcare organizations.

Healthcare organizations and companies are thus very complementary to one another. By forming partnerships, they are able to develop products with a better product/market fit, increasing the potential value that is created for the customer.

In the SHINE project, we have investigated how partnerships between healthcare organizations and companies are formed and summarized our findings and conclusions in a process model, which is graphically depicted in Figure 2. The partnership formation process can be initiated by the healthcare organization or by the company. Both parties have different options and motivations. The process model consists out of four phases: (1) the homework phase, (2) the partnership setup phase, (3) the agile development phase, and (4) the commercialization phase. The process is also subject to two important boundary conditions: the customer/beneficiary relation and the board of directors of the organizations.

In the first section, we will look at the initiation of partnerships and the differences between initiation by the healthcare organization and initiation by the company respectively. In the second section, the four phases of the process model will be explained consecutively. In the third and last section, we will consider the two boundary conditions that were identified during our analysis: the presence of a clear paying customer and the role of the board of directors.

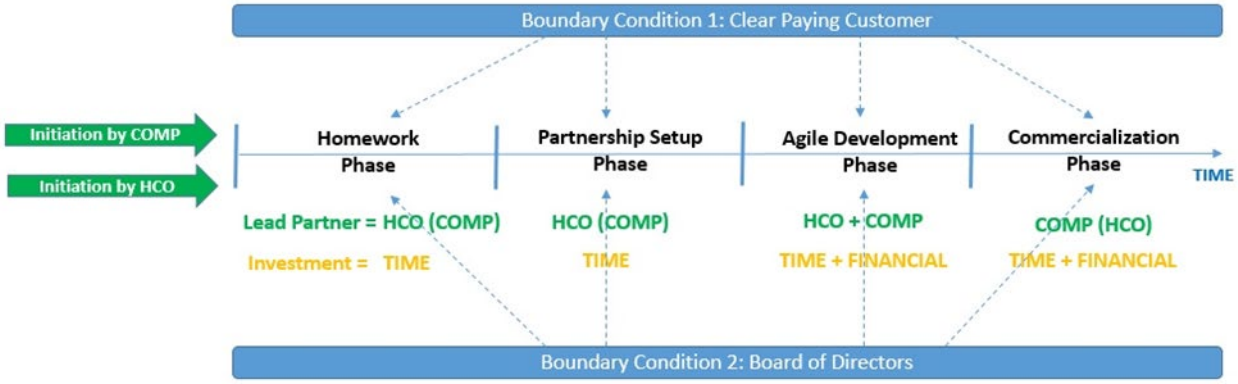

Figure 2 Partnership Formation Process Model

Initiating partnership formation between healthcare organizations and companies

Both the healthcare organization and the company have their own motivations to initiate a partnership. For healthcare organizations, the primary motivation for adopting the partnership approach is the potential of a new source of income. Today, the financial model of healthcare organizations is under pressure. Government subsidies are decreased, budgets are cut, etc… As a result of these changes, healthcare organizations tend to switch to a so-called 'efficiency mode': they try to reach the same quality level of products and services with less resources, by employing their resources in a more efficient way. However, this is a finite process: increasing efficiency has its limits. Apart from trying to increase efficiency, another option for healthcare organizations is to think about new sources of financial resources. These organizations however, have not the natural tendency to do this, which is probably due to the absence of an entrepreneurial mindset. That is, they are not used to think in terms of translating their knowledge about the patient and the market into commercial returns.

However, their market knowledge and market access are of high value and can be used to initiate a partnership with a company. By forming a partnership, the healthcare organization gets access to development capacity and scalability for their commercial ideas. It also allows for risk-sharing between the healthcare organization and the company. This would allow the healthcare organization to tap into a potential new source of financial revenue.

It is important to keep in mind that working together as partners instead of as client/supplier, is not the dominant logic at the moment. This means that the initiating party will always need to put some effort in convincing the other party that working together as partners is mutually beneficial. A company will need to be convinced to leave the comfortable and risk-free position of the supplier, who only needs to deliver goods/services and send an invoice. To do this, the healthcare organization needs (1) to show that total profits will be larger in a partnership than in a client/supplier relationship and (2) to make clear that the only collaboration form that is taken into consideration is the partnership.

A partnership between a healthcare organization and a company can also be initiated by the company. Today, in an arm's length transaction, the company takes 100% of the profits, whereas in a partnership, both the risks and the profits are shared between the participating parties. Therefore, it may seem odd for companies to enter into a partnership with a healthcare organization. Healthcare organizations, however, combine extensive market knowledge with access to a test environment and the broader stakeholder community. This market knowledge and access is highly valuable to the companies, because they allow the for profit organization to build products with a better product/market fit.

The healthcare organization has multiple options to put its market knowledge and access at the disposal of the company. Most frequently, it is given for free. That is, many healthcare organizations are happy to help companies to fine tune their products. Because in the end, so they reason, their help will result in a better product. By offering their expertise for free, the healthcare organizations act in the interest of their patients/clients, who are typically the end users of the products. This way, however, the healthcare organization gets nothing in return for its valuable input, except for the occasional bouquet of flowers or box of chocolates. This can be avoided by opting for one of the two other options. Instead of giving the market knowledge and access away for free, it can be given for a fee. The healthcare organization can for instance charge the company a fixed fee for its collaboration, or it can charge for the personnel costs plus a certain profit margin. This way of working, however, limits the collaboration to a classic client/supplier model. A step further, is to seduce the company into a partnership model. As illustrated in Figure 3, this would allow the healthcare organization to capture a part of the commercial return. Although this way the company does not get the entire pie anymore, it still gets a large share of a much larger pie, which means a net increase in profits. How the returns are exactly split between the partners, however, is subject for discussion.

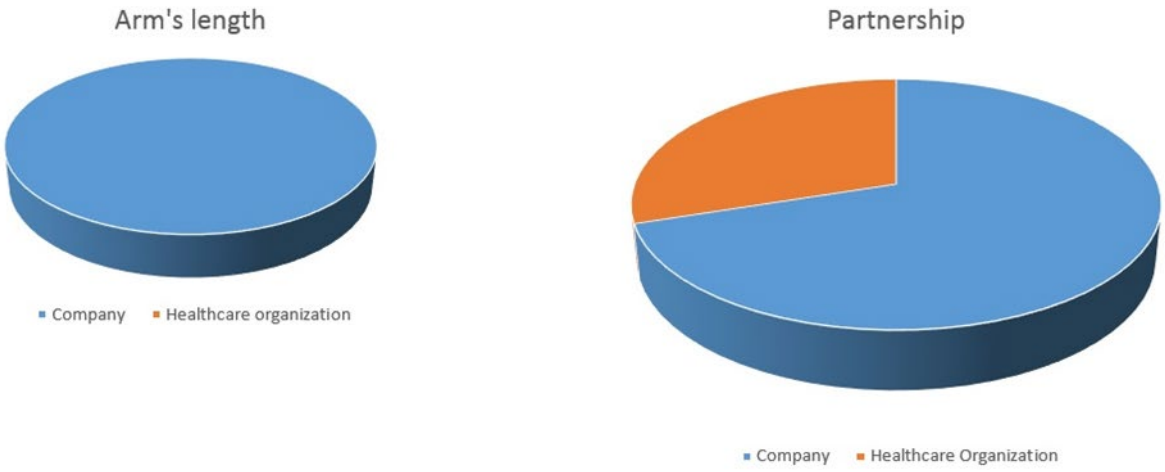

Figure 3 Profit distribution: Arm's length vs. partnership

Left alone who the initiating party of the partnership is, it is important to stress that a shift in mindset is crucial for both parties in order to effectively come to a partnership.

The partnership formation process model

The development of a partnership between a healthcare organization and a company can be seen as a four phased process. Graphically, we present it as four phases, following one after the other, sequentially. However, in reality this should not be seen as a sequential process. But for simplicity, we opted to present it like this.

The four phases the partners have to go through to establish a partnership are: (1) the homework phase, (2) the partnership setup phase, (3) the agile development phase and (4) the commercialization phase.

1. The Homework Phase

Before any partnership can be established, the initiating party has to do its homework. That is: it has to make the business model for the solution it wants to bring to the market. The result of this homework phase is a business model with a clearly defined value proposition, a well-developed view on the value delivery process and a good idea of how the solution is going to bring financial value to the different parties involved.

The homework phase is crucial, because if the initiating party itself does not exactly know what it wants to do, it will never be able to convince other parties to collaborate. One of the most frequently made mistakes in partnership formation is meeting potential partners too early in the process. Without a clear view on the business model, the initiating party has no background and lacks any form of negotiation power with potential partner organizations. Ideally, the initiating party should make its homework and – on top of that – make the homework of the potential partner(s). This allows the initiating party to point out to potentially interested partners what there is to gain for them when they get involved in the partnership.

After finishing the homework phase, one should be able to clearly answer the following questions:

- Which existing problem/need in the market are we going to solve?
- How are we going to do that?
- What is in there for me?
- What is in there for you?

WARNING!

The result of the homework phase is a detailed business model. This is a valuable document, one you should be very careful with. It contains all the information the initiating party has, implying that whoever gets hold of this document, can use it for his own purposes. Just e-mailing it as an attachment to potentially interested partners should thus be avoided at any price. All information shared with external parties is "lost" and can be used by the external party. Therefore, one has to take some important steps to protect this work. Some suggestions:

- *Try to become owner of IP of any type*

Most people think that one is automatically owner of the intellectual property (IP) of his/her own ideas. Unfortunately, this is a misunderstanding. Ideas are no one's property; ideas are free. They do not generate IP rights of any kind.

According to the World Intellectual Property Organization (WIPO), intellectual property "…refers to creations of the mind, such as inventions; literary and artistic works; designs; and symbols, names, and images used in commerce." The rights to the intellectual property can be claimed exclusively by the creator or recipient of ownership transfer and covers the expression of an idea rather than the idea itself. There are several types of intellectual property rights including: Trademarks, Patents, Industrial designs and Copyright. In order to be able to claim any IP, one should thus make sure to fall into one of these four categories.

As mentioned, ideas do not generate IP rights. Patents, Industrial designs, trademarks and copyrights do. If possible, the initiator should try to make a technical drawing of the solution if it is a product, or in the case of software, a first version of the software could be made or it could be represented by way of schemes, flowcharts, etc… All these things can be protected by intellectual property rights – because they go beyond the idea phase - and give the initiating party a stronger case to claim its share in future profits.

- *Protect your homework: use NDA's !*

The initiator should be careful while distributing the business model resulting from the homework phase. Once the information is out in the open, it can be used freely by whoever gets hold of it. Parties of good will can use the information from the homework phase as an input to come to a more refined business model for a partnership with the initiator. Parties of bad will who get hold of the result of the homework phase, but who are not really interested in forming a partnership with the initiator, can just use it for their own benefit. They can for instance use the information to start a partnership with other parties and without the initiator. To avoid this type of 'misuse' of the knowledge generated during the homework phase, Non Disclosure Agreements (NDAs) are an ideal instrument.

An NDA is a legal contract between at least two parties that outlines confidential material, knowledge, or information that the parties wish to share with one another for certain purposes, but wish to restrict access to or by third parties.

The use of an NDA has several benefits. Firstly, it makes the negotiations strictly confidential. Secondly, when an NDA has been signed, all ideas disclosed between the underwriters of the NDA remain "private" and thus "new", since they were not publicly disclosed. This is an important condition for patentability. Once something is publicly disclosed, it loses it patentability; using an NDA avoids this.

2. The Partnership Setup Phase

After the homework phase, the initiating party is ready to (1) explore potential partners, (2) make the partner selection and (3) formalize the collaboration in a partnership contract.

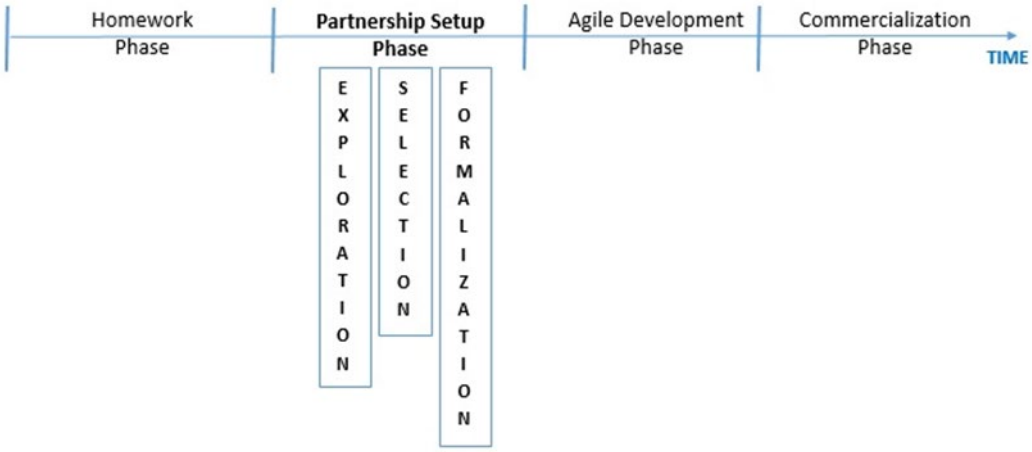

Figure 4 Partnership Setup Phase

During the exploration phase, the initiating party meets with potential partners to explain the value proposition and what there is to gain for all the parties involved. Very important during these first explorative meetings is to make clear to the potential partners that collaboration will only take place under the form of a partnership model and that the client/supplier model is not taken into consideration. It is really needed that this condition is clearly stressed from the beginning because a partnership approach deviates from the dominant client/supplier logic. If not stressed beforehand, chances are high that the parties have different expectations from the collaboration. Therefore, during the exploration phase, it is important – in everybody's interest – to be clear about the underlying principles of a partnership approach: shared risk and shared revenues.

After having met several parties, it is time to make the selection of the partner(s). If the initiating party is a public organization, this selection happens through a public procurement procedure. With this formal procedure the partner fit is assessed. Also when no public organizations are involved, using a procurement-like procedure is recommended. It requires all potential partners to answer the same list of questions and allows the initiating party to make the final selection based on more or less the same information. The partner selection process is however not limited to an objective comparison of different criteria. When two people "select" each other to get married, part of the selection is based on subjective criteria: the extent to which they understand each other, appreciate each other's good sides and accept the bad sides, have the same plans for the future etc… The same goes for two organizations that need to select each other for a partnership. Just as people, organizations also need to fit with one another. That is, the potential partners need to be in line with respect to motivations and objectives with regard to the partnership. Furthermore is it important that the cultures of the organizations are well aligned, so that they really understand each other. Therefore, in this selection step, assessing the fit with regard to

strategic and relational alignment of the organizations is of crucial importance. Without this "fit", the chances of success of a partnership between the organizations are greatly reduced.

The third and last step of the partnership setup phase, is the contracting phase. In this step, the collaboration between the partners is formalized in a partnership contract. The first contract between the partners is crucial and should contain several key principles:

1) *Collaboration form is partnership: including joint development and sharing of profits client/supplier relationship is not an option*

At present, the dominant model of collaboration between healthcare organizations and companies is the client/suppliers relationship. Although the parties may call each other "partners" in essence, they are not. At the end of the day, one party sends an invoice to the other party, which pays it. Therefore, the following idea should be clearly formulated in the collaboration agreement: "Healthcare organization X and company Y agree to work together in the development of solution Z. Organization X does a knowledge transfer to company Y, in exchange for a part of the profit. Organizations X and Y will bring the resulting product Z to the market as partners and will share the profits of the commercialization of this product using the following allocation key: …". More specifically, although agile development (see section 3) typically is something that is done together, legally the result of this process is not considered joint property.

Ideas, market knowledge, etc… do not give the healthcare organization any rights or claims on future revenues. One should always remember that intellectual property (IP) rights are always linked to the party who actually does it. For instance, the party who manufactures the product or writes the software. This is typically the company and not the healthcare organization.

Therefore, if the healthcare organization wants a claim on the financial value when the product/service is finally getting commercialized, it should be contractually agreed that the healthcare organization hands over its knowledge, expertise and testing facilities in return for a certain percentage of the profits.

If there is no formal contractual agreement on this before the agile development process (see section 2.3) starts, the healthcare organization risks to lose all possible claims on future revenues/profits generated with the help of its knowledge and expertise.

2) *Nothing is written in stone: include flexibility using milestones, exit options and dynamic valuation*

Since there are still many unknowns at the start of the partnership, it might be that after a certain period of time, it becomes clear that the partnership – given the terms agreed upon – is not interesting for one or more of the parties involved. In order to preserve some degree of flexibility, the partners could – in the initial draft of the contract – include some "degrees of freedom". Specifically, this can be done under several forms:

- Milestones with exit options: Figure 5 represents the partnership period in a timeline. Before starting the joint development, several milestones could be defined. Each milestone represents a goal, an achievement. But it could also be considered as a moment of reflection and reconsideration of the contract. This could imply that for some parties the milestone could be a

good moment to exit the partnership. Therefore, exit options should be defined. For more details on this milestone based approach, see section 2.3: The Agile Development Phase.

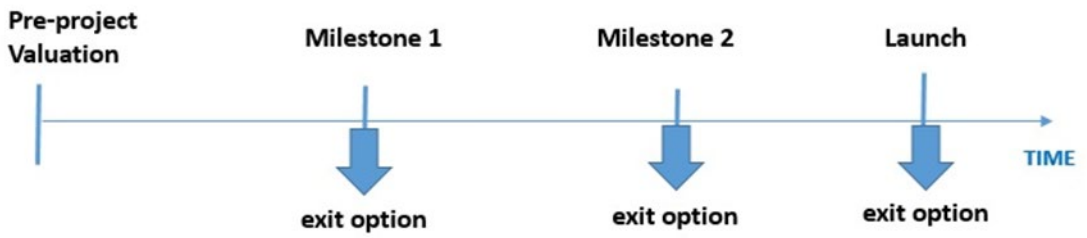

Figure 5 Milestones & Exit Options

- Dynamic valuation: Because during the development process, the investments (in cash or in kind) of the different partners could gradually deviate from what was planned/estimated initially, it is possible that – at the end – the initially agreed upon division of the profits is not in proportion with the actual investments anymore. Therefore, different milestones could be used to reconsider the division of profits. For more details on this dynamic valuation method, see section 2.3: The Agile Development Phase.

3. The Agile Development Phase

During the third phase of the partnership formation process model, the product/service is being jointly developed. Both the healthcare organization and the company work together to refine the product/service during an iterative development process. This phase requires investment of both parties. The healthcare organization as well as the company typically invest in kind, whereas the largest part of the cash investments are mostly made by the company.

Before the agile development phase starts off, a pre-project valuation is performed based on the investments made by the participating parties. In the partnership contract, one or more milestones are defined. Whenever one of the milestones is reached, there are two options: an exit option, for those parties who wish to leave the partnership and a revaluation of the project, based on the investments made in the past period. This way of working allows for a dynamic valuation of the project, that is, it allows for the economic value split between the parties to be regularly updated based on the milestones defined in the partnership contract.

A simple example to illustrate how the virtual valuation works. Let's say that the project is valuated at three moments in time: (1) at initiation, (2) when reaching Milestone 1 and (3) at the moment of product launch. Figure 6 represents the timeline. The pre-project input of each partner is valued at € 40k for the healthcare organization and € 75k for the company. The contribution of each partner during the partnership is estimated at € 50k for the healthcare organization and € 250k for the company. The virtual valuation of the project at initiation is then equal to € 415k, with a virtual share of 21.7% for the healthcare organization and 78.3% for the company.

When reaching Milestone 1, actual spending appears to be equal to € 10k for the healthcare organization and € 40k for the company. This actual spending plus the pre-project input of each partner, brings the

actual budget on € 165k, with the virtual share of the healthcare organization increasing to 30.3% and that of the company decreasing to 69.7%.

At product launch, the project is revaluated for the last time. Then, actual spending of the healthcare organization shows to be equal to € 25k, whereas the company has spent € 255k. This actual spending of 280k together with the total pre-project input value of € 115k, brings the total end value of the project at the moment of product launch to € 395k. The final shares of the healthcare organization and the company are equal to 16.5% and 83.5% respectively. These final shares differ significantly from the shares of the initial valuation, i.e. 21.7% and 78.3% respectively. This shows that dynamic valuation during the project allows for accurate valuation at each milestone, which is needed for partners exiting from the partnership as well as for partners staying in.

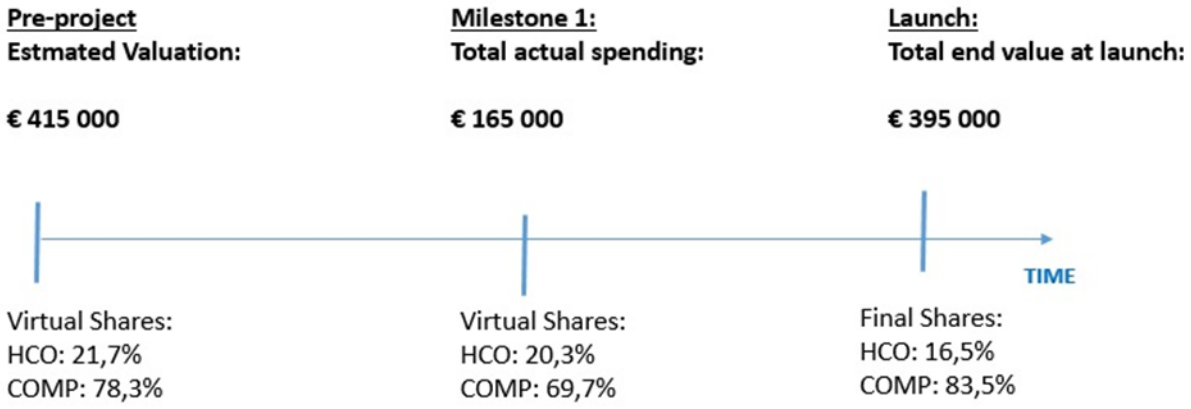

Figure 6 Dynamic Valuation

4. The Commercialization Phase

When the product/service is market ready, it is time for the fourth and last phase of the partnership formation process model: the commercialization phase. In general, the company will take responsibility for the commercialization, as this partner has the most experience in commercializing and selling. However, this does not mean that healthcare organization cannot play a role in this phase. When the product/service is sold in the healthcare sector, it is very likely that the company will ask the healthcare organization to be involved in the sales process. Companies have the experience that, in general, healthcare organizations are more willing to listen to the story/experiences of colleagues of healthcare organizations than to the pitches of the salespeople of potential supplier companies. Therefore, by being involved in the contacts with potential customers, the healthcare organization can give extra legitimacy to the product/service, which can substantially facilitate the sales process.

But be careful! The healthcare organization – being a social profit organization - should carefully think about whether it is willing to get involved in the commercialization phase and – if so – to which extent. Because the decision whether or not to help in the commercialization phase, possibly has legal consequences: fiscal consequences or consequences with regard to product liability.

When a healthcare organization actively helps in the sales process of a product or service, it risks to be requalified as a commercial enterprise instead of a nonprofit social enterprise, which has severe fiscal consequences for the organization. Furthermore, when the product/service is not fully functional and

something happens to one of the users, the healthcare organization – as the seller of the product/service - could be held liable for the damages suffered.

To avoid this, the healthcare organization should take some anticipatory steps: First of all, it should be contractually agreed that the healthcare organization hands over the idea/product to the company 'as is', without guaranteeing that it actually works. Furthermore, is should be stated that the healthcare organization delivers the building blocks for the product/service to the company, that its liability stops at that moment and that both parties agree that the healthcare organization will get a financial return when the product/service is commercialized. This way, the end result will be the responsibility of the company and the healthcare organization will not be directly associated with the end product.

Summarized, the role of healthcare organizations in this partnership approach should be limited to what they know best: the idea, further developing the idea, testing it, at the most writing some references or making a advertising video, but that should be it. The rest of the commercialization phase is the core business of the company.

How the healthcare organization has to practically organize the inflow of profits from the partnership into the healthcare organization will differ from country to country, since it depends on country-specific legislation.

Two important boundary conditions

Based on our interviews with several parties who had participated in a partnership formation process, we were able to identify two factors that have an important influence on the partnership approach and the associated process model. The first factor is whether or not there is a clear paying customer for the solution. The second factor is the willingness of the board of directors of the healthcare organization to participate in a partnership.

1. Presence of a clear paying customer

a) Presence vs. absence of clear paying customer

The uniqueness of the healthcare sector, but also the reason why building business models is more complex in this sector than in other sectors, lies in the fact that the beneficiary of the product/service is not the same person as the one that pays for it.

For a product like a phone or a car, the person paying for the product will most probably be the one who will enjoy the benefit of it. The customer is interested in the product given its functionality and its price: knowing that the car will get him to places or the phone will allow him to call, the customer is willing to pay for the product. There is, in other words, a clear paying customer for the product. For the producer of the product, the decision whether or not to produce depends on whether there is a positive or a negative business case:

- Is the willingness to pay of the customer higher than the cost to produce the product? Then go for it!

- Is the willingness to pay of the customer lower than the cost to produce the product? Stop the project and search for another idea.

In the healthcare sector and more specifically when looking at preventive healthcare products and services, things are different. Take for instance a preventive product like a serious game that simulates people to move and consequently reduces the obesity rate of the user population. This product has two types of beneficiaries:

- Health beneficiaries (the users): if the serious game works like it should, the users should enjoy health benefits such as reduced body weight related health issues such as type 2 diabetes, heart diseases and strokes, sleep apnea, etc…
- Financial beneficiaries (the health insurers or government): if the serious game works like it should, the health insurance companies or the government – who would otherwise face serious financial costs due to the obesity, diabetes, heart diseases and other weight related health problems of their customers/population – would enjoy high cost savings.

The problem here: although the health beneficiaries are the actual users of the preventive product, most of the time they do not have a willingness to pay that is sufficient to cover the development and commercialization costs of the preventive product. Consequently, preventive healthcare products and services are often not developed nor commercialized.

This is why more sophisticated revenue models are needed in order to convince the financial beneficiaries to participate in the business model of preventive products and services. One possible way to do this, is by using Health Impact Bonds.

b) Health Impact Bonds as alternative financing instrument

A health impact bond (HIB) is a financing instrument in which the financial beneficiary pays back the investors from realized cost savings on a 'bond' based formula. During the contract negotiations of the health impact bond, a minimum required impact for pay back is agreed. Also the interest rate and the duration of the bond are defined. The financial beneficiary will pay back the investors if and only if the realized impact is higher than the minimum required impact.

To understand the working of the health impact bond, it is important to make distinction between two phases: (1) the pilot phase and (2) the scale-up phase.

During the pilot phase, graphically depicted in figure 7, investors with a health impact ambition and willingness to take high risk invest in the development and pilot phase of a preventive health product/service (see Figure "HIB pilot phase"). When – after a formal impact assessment - the product/service proves to be ineffective for the health beneficiary and does not sufficiently reduce costs for the financial beneficiary, the process comes to an end. If the formal impact assessment shows the effectiveness of the product/service for the health beneficiary and that it reduces costs for the financial beneficiary, the product/service is scaled-up by a health impact investor.

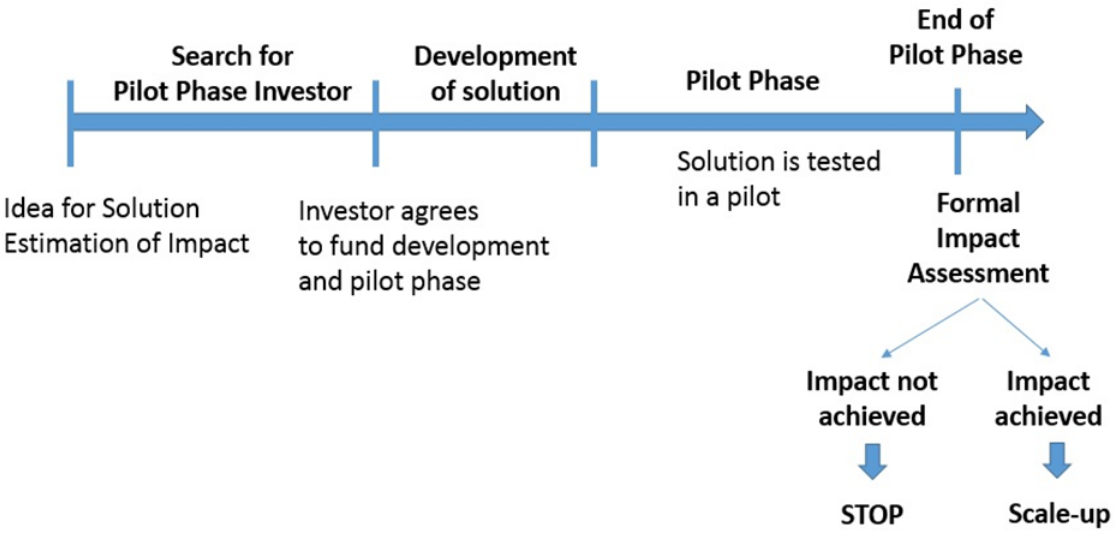

Figure 7 Health Impact Bonds – Pilot Phase

It should however be stressed that although the health impact investor from the scale-up phase typically invests a multiple compared to the investor in the pilot phase, they do not take as much risk since they have the results of the formal impact assessment. The mechanism (see Figure 8 "HIB – scale-up phase") is as follows: the health impact investor pays the social entrepreneur to scale-up the production. The product/service (= "the solution") is sold/delivered to the actual users (= "the health beneficiaries"). After a period of use, a formal impact assessment is performed by an independent impact evaluator. The input of the impact assessment is provided by the health beneficiaries. The independent impact evaluator gives feedback to the party who expects to experience cost savings thanks to the product/service (= "the financial beneficiary"). If the scaled-up product/service proves to be successful, the financial beneficiary will pay back the health impact investor from the realized cost savings. If the impact assessment shows no or insufficient impact, the financial beneficiary does not pay, which results in a loss for the health impact investor.

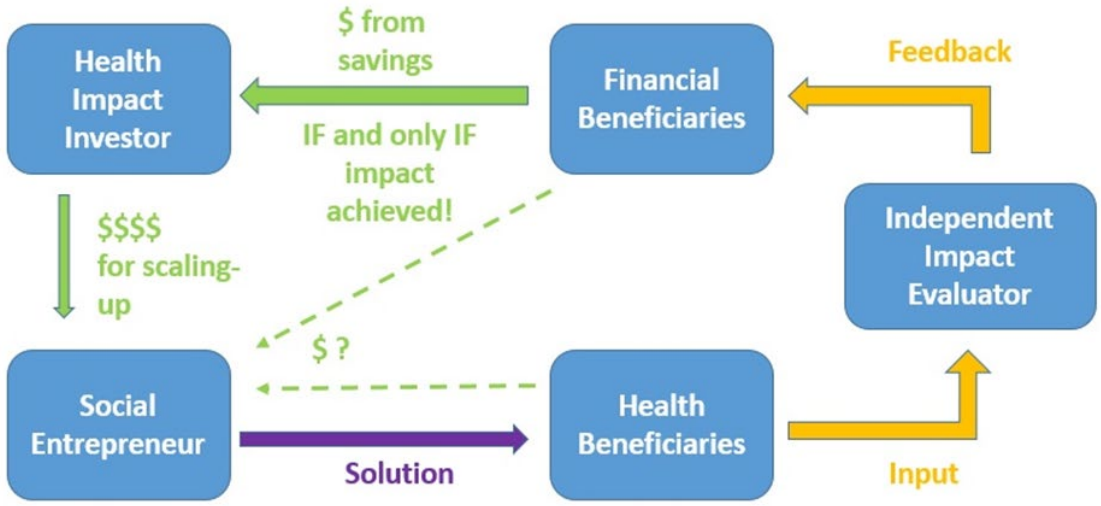

Figure 8 Health Impact Bonds – Scale-up Phase

This financing model may seem complex, but it allows preventive products/services to be developed and produced that would otherwise not be economically justified.

2. The board of directors

Many healthcare organizations have good ideas that have the potential to be profit generating if they are well developed and commercialized. This however requires the approval of the board of directors of the healthcare organization. And that is where many initiatives, unfortunately, get stranded.

This is a logical consequence of how healthcare organizations have been working for decades. Historically, healthcare organizations have focused strongly on their social mission and have relied mainly on government grants and private donations for their funding. However, this picture has been shifting as a result of political and societal changes. Today, healthcare organizations are being pushed to find alternative sources of income to realize their social mission. This movement towards marketization and professionalization has influenced healthcare organizations to combine aspects of charitable and business forms. They become so-called “hybrid organizations”, organizations with both a social and a commercial objective.

Our interviews with several healthcare organizations pointed out that in order to allow a healthcare organization to become hybrid, the board of directors needs to become hybrid as well. Hybrid governance structures imply that the board composition balances social and economic logics. If the board is imbalanced, strategic decision making will focus on the over-represented logic. In reality, this means that if boards of directors of social enterprises keep being composed of directors with a social background, it will be very difficult to realize a turnaround in the functioning of the organization. Furthermore, it is also important for hybrid social enterprises to have a hybrid chairperson, to make sure that the interests of both logics are equally taken into consideration.

For more detailed information about how to actually arrive at a hybrid governance structure, we advise to take a look at Bruneel et al. (2018)[1].

[1] Bruneel, J., Clarysse, B., Weemaes, S., & Staessens, M. (2018). Breaking with the past: The need for innovation in the governance of nonprofit social enterprises. Academy of Management Perspectives. In Press.

Tables and figures

Figures

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