

Policy recommendations and implications for practice

SUMMARY

In this report, KULAK provides an overview of the policy recommendations and implications for practice, each of which are illustrated with specific examples from the Belgian, Dutch and Scottish case.

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1. The importance of entrepreneurial mindset, knowledge of business modelling language and experience in using business modelling methodology

First of all, before potentially profit-generating activities through partnerships between healthcare organizations and companies can be undertaken, they have to be identified as-such. The ability to recognize business opportunities requires a certain commercial, entrepreneurial mindset. People working in the healthcare sector often lack this mindset because this way of thinking is different from the way of thinking needed in their daily, professional life and different from the way of thinking acquired during their education. The following quote illustrates the differences in mindsets:

“I believe that there is a big difference between how we used to think and how we think today. In the beginning, everything with relation to business models and commercial thinking sounded like Chinese. Our business coach was able to translate all this into practical examples. This gave us an entirely other view on the world. It was like putting on different glasses to look at reality.”
(Interview Belgian Pilot Partner, 16/01/18).

Next, healthcare organizations with the ambition to set up a profit-generating activity through partnerships with companies need knowledge and experience with respect to business modelling and entrepreneurship. All three cases showed that a lack of understanding of the language and terminology of business modelling substantially slows down the development of a business model. In Belgium, for instance, the business model development was very slow. The healthcare partners attributed this slow development to the fact that they did not understand the business model language and did not know what was expected. It appeared that there is an important difference between theoretically explaining what tools can be used for developing a business model and step-by-step walking healthcare organizations through their first use of each tool:

“I think that the theory around value proposition and the like was explained much too theoretically. It could be partly due to our capacity to absorb all the new knowledge, but I think that if we had had the coaching from the beginning to translate the theoretical terminology into more concrete plans, it would have helped us a large deal to come to an effective partnership.” (Interview Belgian Pilot Partner 15/01/2018)

In the Dutch case, in contrast, we see that business model development goes faster and includes all business model components from the beginning. The reason for this difference in speed lies in the fact that a company with knowledge of and experience in business modelling was involved in the partnership from the beginning. This allowed for faster progress. In the Scottish case, also the healthcare organization had a large experience in developing business models, which allowed for even faster progress.

Based on these insights, we formulate the following policy recommendations:

- Introduce entrepreneurship education in healthcare education such as medical schools, nursing schools, physiotherapy, etc... in order to stimulate entrepreneurial mindset and increase knowledge of business model terminology and methodology.

- Healthcare organizations need professional coaching by a neutral party for developing business models when engaging in partnerships with companies. Basic knowledge of business model concepts are useful, but not sufficient for developing a business model. Professional and external assistance is required.

2. Critical junctures in the partnership development

• Role of the homework phase

The homework phase, the first phase our partnership formation process model, is crucial as it forces the partnership initiators to think about the value proposition, value delivery and value capturing components of the business model. Before approaching potential partners, there need to be clear and concrete answers to the following questions: (1) What problem are we (as a partnership) going to solve? (= value proposition) (2) What is each party's role? (= value delivery) (3) What can each party gain from the partnership? (= value capturing)

A clearly defined value proposition from the perspective of all partners, is a condition sine qua non for a partnership to be formed. A workable value proposition needs to be focused. In the beginning, the Belgian pilot partners missed focus, which prevented them to formulate a value proposition and to further develop their business model:

"I have learned that it is better to focus on something instead of wanting to do everything at once. It is less complex and easier manageable, which allows you to make faster progression." (Interview Belgian Pilot partner 28/08/2017)

Without a clearly defined value proposition - from the healthcare organization as well as from the company perspective - it is difficult to convince potential partners of the value of a partnership. When the answers on the three aforementioned questions are not clear, companies will have little incentive to exchange the comfortable, risk-free client/supplier relationship for a more risky partnership relation. Clear answers on these questions, on the other hand, increase the negotiation power of the initiating party and will increase the likelihood of success:

"Now, we wait to approach other parties until we know very well where we are and where we want to go to. I think that this is one of the important lessons that we have learned during this project. If you approach a partner too early and unprepared, then you maneuver yourself in a position where you have no alternative but to think along with your partner, instead of your partner thinking along with you. And that is an important difference!" (Interview Belgian Pilot Partner 09/01/2018)

• Importance of the first partnership contract

After the homework phase, the actual partnership is set up. The outcome of this phase is a first partnership contract. The importance of this first contract cannot be underestimated. The contract should clearly state that (1) it considers a partnership, (2) that the partners will jointly develop a product/service and (3) that they will share the profits following a certain distribution formula. In addition, the ownership of intellectual property (IP) should also be covered in the first contract. In the Scottish case, for instance,

there was attention in the contract for the division of IP, very early in the process. Having open discussions about IP during the homework phase is important in order to avoid large undesired imbalances between partners and to avoid discussions about IP in later phases of the product development. The following quote from an IP lawyer underscores the importance of IP in the first contract:

“You have to make arrangements with relation to IP and distribution of profits very early in the process! If you refrain from doing this, it will bring problems. If you do not contractually agree on who the IP that will be created during the partnership belongs to and which mechanism will be used to calculate the profit distribution from the beginning, the FPP will start developing and at a certain moment he will say: “I will not pay you one cent. You don’t have any IP, all the IP belongs to me. So, thank you and goodbye!” (Interview with IP Lawyer 31/01/2018)

Based on this discussion, we formulate the following recommendations for healthcare organizations:

- Healthcare organizations must take sufficient time to go through the homework phase. The homework should help to clarify the business case for themselves as well as allowing to develop a value proposition for potential partners
- Healthcare organizations should make it clear in the initial contract with the company that it concerns a partnership (and not a transactional relationship) and sort out IP ownership rights

3. Government policy as facilitator of partnership formation between healthcare organizations and companies

The government could take several initiatives to stimulate and facilitate the formation of partnerships between healthcare organizations and companies, including (1) the organization of networking activities, (2) the provision of financial incentives to entrepreneurial healthcare organizations, and (3) the promotion of alternative financing mechanisms for preventive healthcare initiatives.

- **Bridging two separate worlds: the need for networking (primarily Flanders and the Netherlands)**

At present, the healthcare organizations and companies are two separate worlds, each with their own mindset. When they interact, this is mostly done via a client/supplier relationship:

Part of the reason that the partnership was not formed easily will certainly be the fact that we feel a little uncomfortable in this new type of relationship. Due to the history that we have with certain parties, we continue to see them as our supplier and ourselves as their customer and the other way round. We are both used to the classic client/supplier relationship and from this position it is difficult to evolve to a new type of relationship. (Interview Belgian Pilot Partner 15/01/2018)

To evolve to a situation where partnerships are common practice, a change in mindset needs to take place by both the healthcare organizations and the companies. This needs awareness creation, which can be organized through networking activities initiated by government agencies.

- **Provision of financial incentives and removal of financial disincentives for entrepreneurial healthcare organizations (Flanders and the Netherlands)**

The Belgian pilot case revealed that the willingness of healthcare organizations to engage in partnerships with companies, thereby becoming more entrepreneurial, depends also on the way they are funded. If, for instance, entrepreneurial initiatives taken by hospitals increase the health of patients and, consequently, reduce the number of days in the hospital, this would negatively affect a hospital's endowment from the government. The cost for society however, decreases as a result of the hospital's entrepreneurial initiative. However, instead of being rewarded, the hospital is being punished for increasing patient's health. Thus, without a change in their financing structure, hospitals will have little incentive to initiate entrepreneurial initiatives. However, government policy could address this by allowing healthcare organizations to reinvest the costs saved for society in the further development of their core activities.

- **Initiating preventive healthcare: the need for alternative financing mechanisms**

In the case of preventive healthcare initiatives, such as in the Dutch case, there is most of the time no clear paying customer which renders these initiatives often economically unviable. That is, the end user, who is the health beneficiary of the preventive healthcare product, typically does not have sufficient willingness to pay to come to a positive business case. Therefore, more advanced financing mechanisms are needed for preventive healthcare initiatives to be economically viable. The mechanism of health impact bonds is one of them (for more information about health impact bonds, see section 3). Government initiatives are needed to make such alternative financing mechanisms more widely known.

In addition, government should act as funder for the pilot phase in the case of health impact bonds. The pilot phase requires an investment to develop the solution and test it on a small scale to evaluate its impact. Our analysis learns that health impact investors are reluctant to finance the pilot phase as the level of risk is very high; they are primarily interested in scaling up proven preventive healthcare solutions. Consequently, there is the risk of a "funding gap" between the pilot phase and the scaling up phase. While governments may facilitate health impact bonds through legislation, such initiative are likely to have little impact due to funding gap. Government should therefore consider to develop instruments addressing the funding gap in the pilot phase.

Summarizing, we suggest the following recommendations for policy:

- the government should invest in networking activities to connect healthcare organizations and companies
- healthcare organizations that invest in preventive healthcare projects shouldn't be financially punished and the government should setup alternative financing mechanism for such projects

4. The “entrepreneurial healthcare sector”: the need for a “healthcare TTO” (Flanders and the Netherlands)

Healthcare organizations are not the first type of organizations which go through a transition from non-commercially driven to a more hybrid organization with both non-commercial and commercial objectives. Universities, for instance, have recently gone through a similar transition. Whereas previously universities were primarily focused on education and research, today universities have evolved to become “entrepreneurial universities” (Etzkowitz, 2003). The entrepreneurial university has the ability to generate a focused strategic direction, both in formulating academic goals and in translating knowledge produced within the university into economic and societal utility. To assist researchers to convert their knowledge, expertise and research findings into economic and societal utility, universities have created dedicated technology transfer offices (TTOs). TTOs are typically engaged in three activities: contract research (including drafting and negotiations), licensing (including IP portfolio management), and spin-offs (including business plan development) (Debackere and Veugelers, 2005). Such offices function as intermediaries between academic staff and company staff to stimulate and support the transfer of university knowledge and technology to companies (and the broader society).

Similarly to most researchers at universities, the overwhelming majority of employees in healthcare organizations lack entrepreneurial competences. Therefore, we suggest the development of a formal TTO-like organization in order to increase the chance of success of the entrepreneurial activities undertaken by healthcare organizations. This TTO could for instance assist these organizations in their thinking about the business opportunity, in the development of the business plan, in securing IP rights, organizing network events to connect healthcare organizations and companies, stimulate awareness about entrepreneurship and innovation among healthcare staff, etc...

University TTOs, however, are typically associated with one individual university. Due to the smaller critical mass of most healthcare organizations, we would advise that policy sets up and supports a TTO at sector level. This “healthcare TTO” could serve as a bridgehead organization which facilitates the cooperation between healthcare organizations and companies and monitor the interests of the healthcare organization during the partnership setup process. To our knowledge, such a “healthcare TTO” does not exist.

A recent trend however, is that more and more healthcare organizations start appointing an innovation manager. Although this trend indicates that a healthcare organizations are increasingly aware of the importance of innovation, an individual innovation manager is unlikely to possess all the knowledge and competencies needed to successfully convert an idea into a market-ready product or service. In the presence of a healthcare “TTO”, however, the innovation manager could take up the role of gatekeeper between his/her healthcare organization and the TTO.

Building on this discussion, we suggest the following recommendation for policy:

- Policy should create a “healthcare TTO” at the level of the sector to stimulate and support healthcare organizations in their innovative/entrepreneurial projects

5. Project funding often unintentionally misused to finance the dating period

During this research project, we had contact with several healthcare organizations that had previously participated in other projects where the goal was to stimulate collaboration between healthcare organizations and companies. It is striking to find that only a minority of the projects ended with successfully established partnerships. One of the interviewees stated the following:

“I would really recommend to build up the relationship step by step. If you know each other a little bit and you have dated for quite some time, then you can think about getting married. The same logic applies to partnerships between organizations, which are in fact very, very expensive marriages. You need a dating period before you take the leap.” (Interview CEO healthcare organization, 18/05/2016)

Also academic literature refers to the period wherein organizations need to get acquainted with one another before taking further collaborative steps as the dating period (Takashi & Smutney, 2002; Rottig et al., 2013).

When organizations are artificially put together and asked to form a partnership – as is often the case in projects funded by the government - we see that partnership formation evolves slowly. Partnerships develop much faster when the parties have known each other for a longer time. This was illustrated by the Belgian and Dutch case, where the partners did not know each other beforehand and where partnership formation was much more difficult compared to the Scottish case, where the partners had already been working together for two years before the start of the project. This means that the Scottish partners were already past the dating period, whereas dating still had to start for the Belgian and the Dutch partners at the beginning of the SHINE project. The low success rate of previous projects shows that partners need the dating period to gain trust in one another and to get acquainted with each other's culture, way of working, etc...

Therefore, based on these insights, the reason why such a small proportion of projects come to effective and successful partnerships may be attributed to the fact that when partners are artificially put together, the project does nothing more than unwillingly finance the dating period. Based on this conclusion, we would recommend project financiers to require potential project participants to show proof of prior contact with one another (i.e. evidence of the dating period), which increases the chance that the partners are already past the dating phase and ready to take the next step in setting up a collaboration. The networking initiatives suggested earlier could be instrumental to initiate the dating period between healthcare organizations and companies.

Following this discussion, we propose the following policy recommendation:

- To avoid financing of the dating period, project financiers should require that potential partners show evidence of prior contact (and also preparatory steps)

6. Initiating, developing, and formalizing partnerships with companies: the need for hybrid governance in healthcare organizations

Setting up partnerships between healthcare organizations and companies requires a hybrid mindset. Per definition, such partnerships are hybrid in nature as they involve the pursuit of both financial and non-financial objectives. These partnerships aim to address challenges in healthcare but with the ambition to develop and implement a sustainable business model. From a governance perspective, initiating and developing partnerships occurs at the operational level (i.e. TMT) while the strategic decision to formalize partnerships is the responsibility of the board of directors.

During several conversations with healthcare organizations, it became clear that there exist a tension between the operational and strategic decision-making level on the desirability of the partnership model. While the TMT sees value in the partnership model, boards are typically more reluctant to formalize them as partnerships are perceived to be “risky” and “too commercial, economic-driven”. In our report on the role of boards in hybrid organizations, we develop the idea that boards should evolve rapidly towards a hybrid governance structure. Further, we emphasize the importance of the bylaws in ensuring a hybrid governance structure over time.

Following this discussion, we propose the following recommendation for healthcare organizations:

- Healthcare organizations need hybrid governance structures to be able adopting the partnership model.
- Healthcare organization need to pay specific attention to the bylaws ensuring hybrid governance structures over time.

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