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Interview with Professor Regina Herzlinger on Balancing Entrepreneurship and Corporate Governance with a

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An immigrant to the U.S. and an economist by training, [Professor Regina Herzlinger](#) was the first woman to be both tenured and chaired at Harvard Business School, where she now [serves as the Nancy R. McPherson Professor of Business Administration](#). She has written three best-selling trade health care books and is finalizing a new book — [Innovating in Healthcare: Creating Breakthrough Services, Products, and Business Models \(Wiley, September 2020\)](#) — for global innovators in life sciences, health insurance, digital health, and health care delivery.

Q: You have had an extraordinary academic career studying the health care industry in demanding faculty leadership roles at Harvard — and have also found the time to be involved in starting and governing several companies, from startups to Fortune 500 companies. Can you share what has attracted you to founding health care startups?

RH: Healthcare systems worldwide need innovation. Although we have wonderful clinicians globally, and terrific resources in developed nations, healthcare systems' costs generally unsustainably grow far faster than the GDP, feature uneven quality, and are difficult to access and notoriously unfriendly to their consumers. After all, they call them patients, as in “you be patient because my time is more valuable.”

Innovations in other sectors of the economy have solved these problems: controlled costs, raised quality levels, and enabled consumer-friendly access. For example, FedEx, Google, Uber, Microsoft, Amazon, and Apple

have done so in transportation and communication.

We need similar innovation in health care. The barrier to innovation is not a shortage of ideas. There are lots of them. The obstacle is the lack of knowledge about how to overcome barriers and create business models that can bring these ideas to fruition.

One significant barrier to innovation in health care is the dominant status quo in health care delivery, insurance, and digital technology — which is generally supported by friendly regulation and reimbursement — that stands in the way of innovators that threaten to dislodge it.

My latest book describes how healthcare innovators can respond to the Six Factors that characterize the *status quo* in the economic and social, political, and demographic environment and how to align with them. These Six Factors are structure, financing, technology, accountability, consumers, and public policy.

Q: Have you had a favorite private sector experience, in terms of a particularly memorable event — or a company that you helped found, or to govern as a director?

RH: My personal favorite is a company that designed, manufactured, and sold a rapid infuser of heated blood for people who otherwise could have bled to death from accidents, gunshots, postpartum hemorrhages, etc. This company was financed solely by its founders' capital and has saved about a million lives since its founding. My book describes how to evaluate the clinical and commercial feasibility of technological innovations like this.

I am also fortunate to have served on many boards of large public firms. Two stand out for turning themselves around to the benefit of their customers and shareholders, and for the business model smarts that their CEOs used to make it happen.

One was a large pharma company that introduced the first Interferon, which it licensed from a much smaller firm, by setting up a unit for its dissemination that was separate from its traditional, not invented here, R&D staff. The separate group reported only to the CEO, who saved it from the all-too-common destruction of outside innovations by internal staff.

The second was the great tractor firm Deere & Company, which was saved from near destruction by its savvy CEO's execution of the ten elements essential to innovative business models, such as a sound competitive strategy and sustainability plan.

(By the way, I have been squarely aligned with the shareholders of all these firms, because my compensation has been in stock, not in cash.)

Q: Are there any memorable examples from your academic career of instances when your private sector work has inspired elements or threads of your research agenda?

RH: I have learned a great deal from all my many different life experiences.

But most of the transference resulted from my research and teaching to the private sector and the government. For example, my early advocacy of consumer-driven health care, in my 1997 book *Market-Driven Health Care*, has helped launch many important innovations so consumers could access

more convenient, accurate, respectful health care. These consumer-driven innovations include telemedicine, wearable and implantable sensors, and convenient and smart retail and urgent care centers. They will transform the health care system.

But my advocacy for insurance and delivery centers (I called them focused factories) tailored to particular health care needs — for example, insurance and delivery tailored to patients with congestive heart failure and its many comorbidities — was perverted to exceedingly high health deductible health insurance by employers (meretriciously marketed so that consumers “would get more skin in the game”) — and to “focused factories” that performed only surgical procedures, rather than providing coordinated care for chronic diseases and disabilities.

My public policy work enabled new high deductible plans (before they mushroomed into monsters) and some increased transparency. But the government has yet to allow the kind of openness that investors have in the SEC’s EDGAR or that food or automobile buyers find right on the item they purchase. The tax relief I sought for individuals who buy their health care has yet to happen too.

When it comes to consumer-driven innovation, the government remains excessively lined up with that segment of the *status quo* that worries about transparency and consumer freedom and is too little aligned with the people who elected them.

Q: What breakthrough innovations in health care delivery or technology excite you most?

RH: Digital health — consumer-controlled sensors, robotics, and telemedicine — will revolutionize health care away from expensive, anachronistic, inaccessible bricks and mortar institutions to care in the home or convenient neighborhood location.

But the some of the status quo will fight hard to resist this transformation, and our elected officials, who are heavily supported by them, will not help consumers achieve it.

An unexpected ally is COVID-19, which clarified that the status quo health care system must change. It enabled changes in the scope and compensation for telemedicine and home health, and a land grab for convenient retail medical centers.

Every cloud has a silver lining, it seems.

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By Jared Mueller August 6, 2020

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