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## The Innovation Value Chain

Key ideas from the [Harvard Business Review](#) article By Morten T. Hansen, Julian Birkinshaw

### The Idea in Brief

Beware conventional wisdom about how to boost your innovation capacity. Every company has unique innovation challenges. So another firm's best innovation practice could become your worst nightmare.

One firm—convinced that intensive idea generation would revive its ailing innovation efforts—established formal brainstorming sessions. But the company, already skilled at surfacing ideas, was inept at evaluating them—so ideas languished. Brainstorming only overloaded an already broken innovation process.

How to avoid a similar fate? Hansen and Birkinshaw recommend viewing innovation as a value chain comprising three phases: idea generation, conversion, and diffusion. Six linking tasks are performed across those phases: internal, external, and cross-unit collaboration; idea selection and development; and spread of developed ideas. Any weak link can break your innovation efforts, so focus on pinpointing and strengthening your deficiencies.

Tailor your innovation practices to your company's needs, and you unleash a stream of profitable products, services, and businesses.

### The Idea in Practice

To strengthen your innovation value chain:

#### Pinpoint Your Weakest Links

For each phase in the innovation value chain, identify your company's weakest skills.

Phase	This link	Is weak if
Idea generation	Collaboration within units	People within units can't generate good ideas on their own.
	Collaboration across units	People collaborating across units don't produce good ideas.
	Collaboration with outside parties	Your company doesn't source enough good ideas from customers, competitors,

		inventors, and other external parties.
Idea conversion	Screening and funding of new ideas	Your screening and funding criteria are so strict that they shut down most ideas, or so loose that your company overflows with projects that don't fit your strategy.
	Developing ideas into viable products, services, or businesses	Ideas selected for further development languish in parts of your organization that are too busy doing other things or that don't see their potential.
Idea diffusion	Spreading developed ideas within and outside the company	Developed ideas don't get buy-in from customers, internal constituencies, distribution channels, or desirable geographic locations.

#### Strengthen Your Weakest Links

Your capacity to innovate is only as good as the weakest link in your innovation value chain. The table shows how to select practices that strengthen your weakest links.

<b>If your company has difficulty</b>	<b>Consider these practices</b>	<b>Examples</b>
Generating ideas	Build external networks	At Procter & Gamble, in-house product developers translate customer needs into technology briefs describing problems needing resolution. Briefs go to technology scouts, suppliers, research labs, and retailers worldwide to elicit solutions.
	Build cross-unit networks	P&G has communities of practice, each comprising volunteers from different parts of the organization and built around an area of expertise. The teams solve specific problems and participate in monthly technology summits with representatives from P&G's business units.

Converting ideas	Provide cross-unit funding	Shell Oil's GameChanger unit funds development of radical ideas, operating across major divisions with a \$40 million annual seed-funding budget. Forty percent of projects in Shell's exploration and production sectors started as GameChanger projects.
	Create safe havens	A technology firm established a separate, autonomous business unit to develop new ideas supporting the company's strategy. Successful venture managers earned hefty bonuses. Numerous ventures became viable businesses with combined annual revenues of 100 million.
Diffusing ideas	Designate "idea evangelists"	Sara Lee's Sanex shower products encountered resistance from several country managers. A division president won them over by repeatedly visiting them and hosting them at headquarters. Sanex eventually was introduced in 29 countries.

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#### Further Reading

#### Articles

#### **Innovation: The Classic Traps**

*Harvard Business Review*

November 2006

by Rosabeth Moss Kanter

Relying too much on other companies' best innovation practices isn't the only innovation pitfall you need to consider. Kanter identifies additional common mistakes that fall into four categories: 1) Strategy mistakes, including rejecting opportunities that at first glance seem too small and assuming that only new products count—not new services or improved processes; 2) Process mistakes, such as strangling innovation with the same tight planning, budgeting, and reviews applied to existing businesses; 3) Structure mistakes; for instance, isolating fledgling and established enterprises in separate silos; and 4) Skills mistakes, including allowing innovators to rotate out of teams so quickly that team chemistry doesn't have an opportunity to gel.

## **The Process Audit**

*Harvard Business Review*

April 2007

by Michael Hammer

Hansen and Birkinshaw present innovation as a key business process. And like all business processes, it can be transformed to improve quality, speed, and profitability. In this article, Hammer presents a model that can be applied to enhance your innovation process. Using the model, you diagnose the strength of your innovation “process enablers,” which include people who know how to carry out innovation as well as information systems supporting innovation. The model also helps you assess your “enterprise capabilities,” factors that cultivate an environment where high-performance processes can flourish. Enterprise capabilities include values of teamwork and personal accountability as well as process-redesign skills. The stronger your process enablers and enterprise capabilities, the higher performing your innovation process. Hammer's model helps you pinpoint the enablers and enterprise capabilities you need to improve and strengthen innovation in your firm.

## About the Authors

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