Online Version

Harvard Business Review

HBR SPOTLIGHT

The Innovation Value Chain

Rather than reflexively importing innovation best practices, managers should adopt a tailored, end-to-end approach to generating, converting, and diffusing ideas.

by Morten T. Hansen and Julian Birkinshaw

Executives in large companies often ask themselves, "Why aren't we better at innovation?" After all, there is no shortage of sound advice on how to improve: Come up with better ideas. Look outside the company for concepts and partners. Establish different funding mechanisms. Protect the new and radically different businesses from the old. Sharpen the execution.

Such strategic counsel, however, is based on the assumption that all organizations face the same obstacles to developing new products, services, or lines of business. In reality, innovation challenges differ from firm to firm, and otherwise commonly followed advice can be wasteful, even harmful, if applied to the wrong situations.

Consider how two different CEOs confronted the innovation challenges facing their companies. When Steve Bennett joined Intuit, the maker of the financial software programs Quicken and QuickBooks, in January 2000, it was a company with lots of ideas—most collected from outside the organization—but little discipline for bringing those ideas to market. "We had a lot of energy focused on learning from customers," the CEO recalls, "but we were struggling to decide which ideas would have the highest impact." To fix this, Bennett demanded that clear business objectives be set for ideas in development, and he held people accountable for delivering on them. Intuit is now just as good at executing on ideas as it is at generating them. The company's revenues and profits are up 47% and 65%, respectively, from three years ago, in part because of this effort.

About the same time that Bennett took the helm at Intuit, A.G. Lafley became CEO of Procter & Gamble, a company that had traditionally been good mainly at developing new products internally and bringing them to market. But a persistent weakness was its insular culture. Lafley wanted the company to become better at cultivating ideas from the outside. After five years of investments, P&G now has a state-of-the-art process for sourcing ideas externally, which includes a global network of resources and online knowledge-exchange sites. This process complements P&G's core competency in executing on ideas and has helped fuel an increase in sales and profits of 42% and 84%, respectively, over the past five years.

Bennett and Lafley faced different innovation challenges, which required different solutions. Intuit and Procter & Gamble probably would be worse off today had their CEOs simply imported the latest best practices in innovation management. Now consider a computer hardware company we analyzed. Buying into the latest advice about innovation—companies should focus on generating more ideas—managers set up a series of formal brainstorming sessions. Idea generation wasn't the problem, however. The company had inadequate screening and funding processes: Concepts never flourished, nor did they die. The brainstorming sessions actually aggravated the innovation process—employees were pumping more and more ideas into an already badly broken system.

Even the strongest dose of the best analgesic on the market won't help mend a broken bone. Likewise, companies can't just import the latest fads in innovation to cure what's ailing them. Instead, they need to consider their existing processes for creating innovations, pinpoint their unique challenges, and develop ways to address them. In this article, we offer a comprehensive framework—"the innovation value chain"—for doing just that.

The innovation value chain is derived from the findings of five large research projects on innovation that we undertook over the past decade. We interviewed more than 130 executives from over 30 multinationals in North America and Europe. We also surveyed 4,000

nonexecutive employees in 15 multinationals, and we analyzed innovation effectiveness in 120 new-product-development projects and 100 corporate venturing units.

The innovation value chain view presents innovation as a sequential, three-phase process that involves idea generation, idea development, and the diffusion of developed concepts. Across all the phases, managers must perform six critical tasks—internal sourcing, cross-unit sourcing, external sourcing, selection, development, and companywide spread of the idea. Each is a link in the chain. Along the innovation value chain, there may be one or more activities that a company excels in—the firm's strongest links. Conversely, there may be one or more activities that a company struggles with—the firm's weakest links. (See the exhibit "The Innovation Value Chain: An Integrated Flow.")

The Innovation Value Chain: An Integrated Flow (Located at the end of this article)

Our framework asks executives to take an end-to-end view of their innovation efforts. It discourages managers from reflexively importing innovation practices that may address a part of the chain but not necessarily the one that the company needs to improve most. It centers their attention on the weakest links and prompts executives to be more selective about which practices to apply in their quest for improved innovation performance.

The innovation value chain can also help managers realize that a perceived innovation strength may actually turn out to be a weakness: When managers target only the strongest links in the innovation value chain—heeding popular advice for bolstering a core capability in, say, idea generation or diffusion—they often further debilitate the weakest parts of the chain, compromising their innovation capabilities overall.

Think Innovation Value Chain

To improve innovation, executives need to view the process of transforming ideas into commercial outputs as an integrated flow—rather like Michael Porter's value chain for transforming raw materials into finished goods. The first of the three phases in the chain is to *generate* ideas; this can happen inside a unit, across units in a company, or outside the firm. The second phase is to *convert* ideas, or, more specifically, select ideas for funding and developing them into products or practices. The third is to *diffuse* those products and practices. Let's examine the activities and challenges associated with each.

Idea generation.

Executives understand that innovation starts with good ideas—but where do these concepts come from? Managers naturally look first inside their own functional groups or business units for creative sparks; they usually find they have a pretty good sense of what's close at hand. The bigger sparks, they discover, are ignited when fragments of ideas come together—specifically, when individuals across units brainstorm or when companies tap external partners for ideas.

Cross-unit collaboration—combining insights and knowledge from different parts of the same company in order to develop new products and businesses—is not easily achieved. Decentralized organizational structures and geographical dispersion make it hard for people to work across units. Managers at Bertelsmann, the large German global media company, took a staggering three years to catch up with Amazon in launching an online bookstore, in large part because of their company's decentralized makeup. Bertelsmann's autonomous publishing houses, book and music clubs, and distribution and multimedia divisions could not and did not collaborate on this new business opportunity.

Companies also need to assess whether they are sourcing enough good ideas from outside the company and even outside the industry—that is, tapping into the insights and knowledge of customers, end users, competitors, universities, independent entrepreneurs, investors, inventors, scientists, and suppliers. Many companies do this poorly, resulting in missed opportunities and lower innovation productivity. Sony, for example, had an impressive track record throughout the 1980s for developing new-to-the-world products such as the Walkman and PlayStation. But by the 1990s, the company's engineers were becoming increasingly insular. As CEO Sir Howard Stringer recalled in a 2005 *New Yorker* article, the engineers started to suffer from a damaging "not invented here syndrome," even as rivals were introducing next-generation products such as the iPod and Xbox. As a result of their belief that outside ideas were not as good as inside ones, they missed opportunities in such areas as MP3 players and flat-screen TVs and developed unwanted products—cameras that weren't compatible with the most popular forms of memory, for instance.

Idea conversion.

Generating lots of good ideas is one thing; how you handle (or mishandle) them once you have them is another matter entirely. New concepts won't prosper without strong screening and funding mechanisms. Instead, they'll just create bottlenecks and headaches across

the organization. In many companies, tight budgets, conventional thinking, and strict funding criteria combine to shut down most novel ideas. Employees quickly get the message, and the flow of ideas dries up. When Stewart Davies became head of R&D at BT in 1999, the UK telecommunications group was in financial trouble. Davies reviewed operations within R&D and recalled being staggered by the inventiveness—and the frustration—of the people he met. There was no shortage of good ideas at the company, he concluded. But inadequate commercial skills and a shortage of seed money for high-risk projects made it difficult for anyone to move forward with ideas for new technologies.

Other companies have the opposite problem: Managers don't apply their screens strictly enough. The organization overflows with new projects of varying quality (often underfunded and understaffed) and no clear sense of how the initiatives fit into the overarching corporate strategy. For instance, in 1999 the UK media company Emap earmarked approximately £100 million to create a digital division to develop Internet-based offerings for its magazine and radio businesses. Worried that it was falling behind its competitors, the company aggressively invested in whatever digital business ideas were put forward, with little regard for business cases or budgets. By 2000, Emap had 43 separate businesses focused on online media offerings, with projected revenues in excess of £100 million. In reality, revenues never rose above £20 million. Most of the businesses shut their doors; and the division reported losses of £60 million in 2001 and £17 million in 2002.

No matter how well screened or funded, ideas still must be turned into revenue-generating products, services, and processes. Concepts that have been selected for further development often go nowhere because they're languishing in a part of the organization that's too busy doing other things or that fails to see their potential. For instance, to address the burgeoning demand for energy-efficient lighting, consumer appliances, and heating systems, General Electric invested in a small energy-management services business in Canada in the 1990s. Despite the business's early successes in winning contracts and some market share, there was no natural home for it within the product-focused GE. The business struggled along as a misfit for a few years before being shut down, and GE missed an opportunity to gain early-mover advantage in a growing industry.

Idea diffusion.

Concepts that have been sourced, vetted, funded, and developed still need to receive buy in—and not just from customers. Companies must get the relevant constituencies within the organization to support and spread the new products, businesses, and practices across desirable geographic locations, channels, and customer groups. In large companies with many subsidiaries and organizations, such diffusion is far from automatic. At Procter & Gamble in Europe, for instance, the focus several years ago was on extensive product and market testing to prove "superior total value," and the company placed ultimate authority for launching new products on the shoulders of its national brand managers. These policies led to painfully slow rollouts. Because of P&G's rigorous market-test requirements, managers launched Pampers diapers in France an astonishing five years after the product was first introduced in Germany. Meanwhile, Colgate-Palmolive, noticing P&G's early success in Germany, launched a me-too line of diapers in France, gaining dominant market share there, two full years before P&G introduced Pampers in that country.

Focus on the Right Links

When executives view their companies' innovation processes as a value chain, engaging in a link-by-link analysis, they may be surprised by what they learn. The managers we've worked with are often quick to tout their particular innovation strengths: "We're really creative." "We're very good at developing products fast." Perhaps—but these so-called innovation strengths can actually lead to weaknesses in the process if they're not complemented by equivalent strengths in other areas. Consider the computer hardware manufacturer we referred to earlier. At any point in time, there were at least 50 very good ideas for new products and businesses floating around the company. But because managers did not screen the ideas properly—funding the best ones and killing the others—few ideas took hold, and new ones just kept coming. The engineers at the firm became increasingly frustrated, seeing their creative talents go to waste. The brainstorming sessions that senior management implemented to help mend fences with the engineers only contributed to the problem. By failing to recognize the weak link (idea selection) and focusing more time and resources on an already strong link (idea generation), the management team undermined the company's overall innovation efforts.

Similarly, it doesn't matter how great a company's idea-selection process is if only a few good concepts are on the table or if the subsequent development process is weak. It's also a waste of time and money to develop state-of-the-art capabilities for rolling out products or services when there's nothing worthwhile to diffuse.

In short, a company's strongest innovation links are simply no good if they prompt the organization to spend money with little hope of solid returns or if the attention paid to them further weakens other parts of the innovation value chain. Managers need to stop putting all their effort into improving their core innovation capabilities and focus instead on strengthening their weak links. Indeed, our research suggests that a company's capacity to innovate is only as good as the weakest link in its innovation value chain. (See the exhibit "Which Innovation Strategy Is Right for You?")

Which Innovation Strategy Is Right for You? (Located at the end of this article)

Organizations typically fall into one of three broad "weakest link" scenarios. First is the *idea-poor* company, which spends a lot of time and money developing and diffusing mediocre ideas that result in mediocre products and financial returns. The problem is in idea generation, not execution.

By contrast, the *conversion-poor* company has lots of good ideas, but managers don't screen and develop them properly. Instead, ideas die in budgeting processes that emphasize the incremental and the certain, not the novel. Or managers adopt the "1,000 flowers" approach, letting ideas bloom where they may but never culling them. The need is for better screening capabilities, not better idea generation mechanisms.

Finally, the *diffusion-poor* company has trouble monetizing its good ideas. Decisions about what to bring to market are made locally, and not-invented-here thinking dominates. As a result, new products and services aren't properly rolled out across geographic locations, distribution channels, or customer groups. For such companies, the real upside lies in aggressively monetizing what it has already been able to develop, not in paying further attention to idea generation or idea conversion.

Here's a closer look at the three typical weakest-link scenarios and some possible best practices that would be appropriate for managers to adopt.

Fixing the Idea-Poor Company

Why do some companies experience a shortage of good new ideas? Our research indicates it's partly due to inadequate networks. Managers fail to forge quality links with others outside their company. Or people prefer to talk to their immediate colleagues rather than reach out to counterparts in other departments or divisions. These companies need to build *external networks* as well as *internal cross-unit networks* to generate ideas from new connections.

Build external networks.

There are two fundamentally different approaches to building external networks, each of which fulfills different objectives. The first approach is to develop a *solution* network, geared toward finding answers to specific problems. This is what A.G. Lafley mainly has built at P&G. In-house product developers translate customer needs into technology briefs that include descriptions of the problems to be solved. The technology briefs traverse the company's external network—which comprises technology scouts, suppliers, research labs, and retailers worldwide—to see whether someone, somewhere can offer solutions to the problems posted. (For more details about P&G's external solution network, see Larry Huston and Nabil Sakkab's "Connect and Develop: Inside Procter & Gamble's New Model for Innovation," HBR March 2006.)

Likewise, the pharmaceutical company Eli Lilly has spearheaded InnoCentive (www.innocentive.com), a solution-seeking Web site that Lilly, P&G, and other companies use to find answers to specific technical or scientific problems. The companies post questions—for instance, "How can we protect fatty acids from oxidation?"—that any of the more than 10,000 engineers, chemists, and other scientists registered at the site can tackle. The individual or group offering the best acceptable solution gets a financial reward; the winner of the fatty acids challenge received $20,000.

The second approach is to build a *discovery* network geared toward unearthing new ideas within broad technology or product domains. This is what Siemens, the Germany-based electronics and engineering company, has done in Silicon Valley. Since 1999, it has sited a 15-person scouting unit in Berkeley, California. Members of the Technology-to-Business (TTB) Center cultivate personal relationships with scientists, doctoral students, venture capitalists, and entrepreneurs as well as government labs and corporate research centers. Through these relationships, they learn about emerging technologies and business ideas. Their real value as scouts, though, lies in their ability to match emerging technologies to specific Siemens businesses. For instance, TTB scouts learned about technology for optimizing the quality of service on computer networks from a Columbia University doctoral student. They were able to deliver that knowledge to the appropriate parties—first to Siemens's telecommunications division, and then, after that industry experienced an unrelated downturn, to the company's factory communications division. That group aspired to meet the customer need for guaranteed real-time traffic over wireless local area networks (WLAN). As a result of TTB's diverse external network, Siemens was able to release the first-ever WLAN product with real-time guarantees and take a leading place in that market.

The objective of discovery networks should be to learn, not to tell. Consider how Intuit developed its Simple Start edition of QuickBooks in 2003. Developers wanted to observe the owners of one- or two-person businesses: Exactly how did they manage their accounts? How did they handle their payables and receivables? Intuit created a fact-finding process: A ten-member development team visited with small business owners in 40 "follow me homes," where the developers experienced firsthand the business problems facing users. Many

customers didn't need or want certain higher-end accounting functions in their software, the developers learned, so the team set out to simplify QuickBooks. They tested six successive stripped-down versions of the software in the follow-me-homes before arriving at the Simple Start edition—which proved to be a best seller for Intuit.

Whether managers are developing solution networks or discovery networks, the key metric for them to keep in mind is diversity, not number, of contacts. The goal here should be to tap as many unique sources of information and ideas as possible as opposed to interacting with many similar contacts.

Build internal cross-unit networks.

A complementary approach to generating new ideas from outside companies is to build cross-unit networks inside organizations. After all, employees who don't know one another can't collaborate on new ideas. And the occasional cross-functional brainstorming session won't do the trick: It unfairly assumes that people who are unfamiliar with one another will be able to work together to generate ideas on demand. What's needed is an ongoing dialogue and knowledge exchange between people from different units.

P&G has done this for years, resulting in many successful cross-fertilized product and business creations. Take, for example, the company's development of Olay Daily Facials. The idea was to make a face cream that was an excellent cleanser and moisturizer. Experts from P&G's skin care, tissue and paper towel, and detergents and fabric softeners groups joined together, and their combined knowledge about surfactants, substrates, and fragrances helped P&G create and launch a highly successful new product.

These kinds of collaborations don't happen by chance; they are the result of well-established organizational mechanisms. P&G has developed 30 communities of practice. Each comprises volunteers from different parts of the organization and is built around an area of expertise (such as fragrance, bleach, analytical chemistry, or skin and hair science). The teams solve specific problems that are brought to them, and they participate in monthly technology summits with representatives from P&G's ten business units. The company has also posted an "ask me" feature on its intranet, where employees can describe a business problem or need. Their questions or concerns get pushed out to 10,000 P&G employees worldwide and are ultimately funneled to those people with relevant expertise. At a more fundamental level, P&G promotes from within and moves people across countries and units. As a result, its employees build extensive personal cross-unit networks.

Fixing the Conversion-Poor Company

Why do companies find it difficult to convert good ideas into products and services? Most companies have no shortage of formal systems for managing ideas. The number and diversity of people involved, however, can create a risk-averse and bureaucratic process that grinds execution to a halt. As one senior executive in a financial services company told us, "If I want to get a new idea to market quickly, I take personal control of it, and I steer it through the system. If I want to kill an idea, I send it through the formal process." Two innovation practices can go a long way toward addressing the idea-conversion problem—*multichannel funding* and *safe havens*.

Multichannel funding.

In conversion-poor companies, innovation stalls when, say, the boss doesn't like a particular new idea or doesn't consider it good enough to supplant an existing initiative that's already accounted for in the budget. That's usually the end of it; another potential line of business or method for improving corporate performance falls by the wayside. A multichannel funding model, however, opens up different options outside the boss's immediate purview—from small discretionary pots of seed money all the way to full-scale venture funds.

Consider the success of Shell Oil's GameChanger unit: It was set up in 1996 to fund the development of radical ideas that might lead to entirely new businesses, and it has been a great success over the past decade. Today it operates across all the major divisions of Shell (exploration and production, retail, and chemical) and has an annual seed-funding budget of $40 million. Leo Roodhart, a corporate-level executive, oversees the 25-person unit. Shell employees submit their ideas to the GameChanger Web site. Unit members review all ideas, and, over the course of six months to a year, the proposals go through various rounds of vetting, prototyping, and funding. Employees take time away from their day jobs to explore their ideas further, and they are compensated for their efforts. As proposals turn into business plans, employees may receive between $300,000 and $500,000 in initial funding from GameChanger. Project milestones are formally set up, and clear deliverables and progress reviews are required at each stage. Ventures that achieve "proof of concept" (about 10% of all original submissions) leave GameChanger at that point and are either moved into one of the divisions (where most projects go) or into Shell Technology Ventures, a corporate spinout vehicle.

Since GameChanger was formed, some 1,600 ideas have been submitted. The flow of proposals is constant, and the unit has built up a track record of success: forty percent of all development projects in the exploration and production business started out as GameChanger ventures.

Safe havens.

Some companies are better than others at building safe havens for their emerging concepts. Such havens can be critical to the successful conversion of good ideas into profitable products or businesses. Consider the situation at a UK technology company we'll call Tenco. Frustrated by its anemic top-line growth, the firm in 2000 established a separate unit focused on developing new business ideas that were clearly relevant to Tenco's overall strategy but that would probably stagnate in the line organization. Of the 13 ventures the unit was responsible for sheltering, nine went on to become viable businesses with combined annual revenues in excess of £100 million.

Tenco's executives saw their role as shielding these new businesses from the short-term thinking and budget constraints that pervaded the rest of the organization, but without isolating them. On the one hand, the management team built a governance structure that kept the new businesses close to the mainstream ones. A board that included heavy-hitting line executives oversaw the new ventures. When one new business team was looking for access to an existing Tenco sales channel, a board member was able to broker the match in a way that worked for both parties. On the other hand, Tenco sited the new businesses in a separate location and gave them high levels of operating autonomy. To foster an entrepreneurial spirit, Tenco developed a novel risk/reward compensation scheme for managers of the new businesses. Base pay was relatively low compared with standard industry salaries, but managers who hit all their numbers could see rewards as high as those of Tenco's senior executives. The structure has worked well: Successful venture managers have been reasonably well compensated and have retained their allegiance to the company.

Fixing the Diffusion-Poor Company

Why do some companies find it so difficult to gain traction for their new ideas? In decentralized organizations, managers are granted considerable autonomy, including the freedom to say "No thanks" to new ideas. Even when managers have less formal control over which new ideas will be implemented, they can still delay or sabotage projects they don't believe in. Diffusion doesn't happen by fiat; executives can't just order a companywide rollout of developed ideas. Instead, they need to create buzz for new concepts by using a variety of catalysts. One such catalyst is the "idea evangelist"—someone who preaches the good word about an emerging product or business. The best evangelists relentlessly use their deep, high-touch personal networks to increase awareness among employees and persuade them to adopt a new product or business concept. They reach out through phone calls, e-mails, and sales calls and in meetings. Their relationships must span many different parts of the organization for companywide and cross-company diffusion to ensue.

Let's look at the European launch of Sara Lee's Sanex soap and shower products in the early 1990s. Sanex was first created in Spain and quickly achieved leadership in the bath and shower segment as a "healthy skin" concept. Excited by Sanex's regional success, Sara Lee's European executive team asked Martin Muñoz, the president of the Southern European division of Sara Lee and a creator of Sanex, to take personal responsibility for coordinating its launch across Europe. The only problem was that Sara Lee's highly decentralized structure made such a launch difficult, and several country managers had already expressed their lack of support for Sanex. So Muñoz made it his personal crusade to win them over. He had the excellent results from Spain to help make his case, but, as he said, "Success is never enough." Despite resistance from the marketing managers in the UK and Denmark, Muñoz persevered: He visited them many times, and he brought them out to Barcelona to sell them on the concept. Muñoz was also aware of internal changes and moved quickly to visit and bring on board a new marketing manager who had just replaced a skeptical one in the UK. His tenacity prevailed. After two years, Sanex had successful launches in four countries. It was eventually introduced in 29 countries and for several years was Sara Lee's best-selling brand in its household and body care division.

New Measures, New Roles

If executives tailor their solutions to the right problems, over time, a weak link in the innovation value chain will become a strong one—and some other part of the chain will need tending instead. Managers need to monitor each link in the chain constantly in order to continually improve the whole.

Rate Your Company's Innovation Value Chain (Located at the end of this article)

Indeed, for managers who adopt the innovation value chain perspective, it's not just business as usual. They will need to implement new key performance indicators that focus on the specific deliverables from each link in the chain. If a company wants to improve its external sourcing of ideas, for instance, a baseline measure would be the actual number of good new ideas the company (or unit) sourced from outside last year rather than the number of university partnerships it has created. Or if a firm wants to improve its diffusion practices, a good baseline measure would be the percentage of penetration in desired markets, channels, and customer groups plus the months to full diffusion rather than the absolute market share in each country. Managers will need to determine what constitutes a "good" idea versus a trivial one, what constitutes an ideal flow of concepts from the outside, and ratios of good ideas to all ideas (good or bad) found outside the company, among other data. Companies may not already collect these data; they may have to start out with internal surveys

and then accumulate information as they go.

Managers adopting the value chain view of innovation will also need to cultivate new roles for employees. For instance, team members at Siemen's Silicon Valley unit are external scouts, seeking good ideas from outside the company. At Procter & Gamble, product developers and scientists assume the role of internal idea brokers, talking to colleagues across the company to identify new ways of combining technologies from different parts of the company to develop new products and businesses. At Shell, Leo Roodhart and the members of his GameChanger team act as internal venture capitalists, funding and overseeing new ideas in a phased manner with increasing levels of commitments. At Tenco, the venture board members act as project champions, steering new businesses to success by providing safe havens for them. And finally, people like Martin Muñoz at Sara Lee act as internal evangelists, trying to get the rest of the company to adopt new products, concepts, and businesses. These are often not full-time roles; people can usually assume these tasks as part of their normal duties. It is important, however, for top management to keep the innovation value chain in mind—the weak links in particular—when determining the skills and experience they're looking for in new hires. A company that is poor at converting ideas into new products and lines of business, for instance, may look to bring in people with venture capital backgrounds in order to foster that mind-set at the organization.

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There is a lot of excellent counsel in bookstores and from consulting firms for executives seeking to improve their innovation capabilities. In the quest for answers, though, managers need to remember that one size doesn't fit all. The inappropriate application of popular innovation remedies may, in fact, thwart a company's efforts to improve. The innovation value chain offers a tailored and systematic approach to assessing your company's innovation performance and determining which of the many best practices out there would be best to adopt. The chain-based view can help executives unleash a stream of new products and services. More important, it can help them finally realize the potential from their innovation investments.

The Innovation Value Chain: An Integrated Flow

Viewing innovation as an end-to-end process rather than focusing on a part allows you to spot both the weakest and the strongest links.

	IDEA GENERATION			CONVERSION		DIFFUSION
	IN-HOUSE Creation within a unit	**CROSS-POLLINATION** Collaboration across units	**EXTERNAL** Collaboration with parties outside the firm	**SELECTION** Screening and initial funding	**DEVELOPMENT** Movement from idea to first result	**SPREAD** Dissemination across the organization
KEY QUESTIONS	Do people in our unit create good ideas on their own?	Do we create good ideas by working across the company?	Do we source enough good ideas from outside the firm?	Are we good at screening and funding new ideas?	Are we good at turning ideas into viable products, businesses, and best practices?	Are we good at diffusing developed ideas across the company?
KEY PERFORMANCE INDICATORS	Number of high-quality ideas generated within a unit.	Number of high-quality ideas generated across units.	Number of high-quality ideas generated from outside the firm.	Percentage of all ideas generated that end up being selected and funded.	Percentage of funded ideas that lead to revenues; number of months to first sale.	Percentage of penetration in desired markets, channels, customer groups; number of months to full diffusion.

Which Innovation Strategy Is Right for You?

There are many excellent innovation perspectives, as this small sample of published works indicates. The innovation value chain provides a framework for managers to sort out which approaches make the most sense for their companies to adopt.

Innovation Value Chain		Possible Solution
Idea Generation	In-house idea generation	"How to Kill Creativity," by Teresa M. Amabile (HBR September–October 1998) *Jamming: The Art and Discipline of Business Creativity,* by John Kao (HarperBusiness, 1996)
	Cross-pollination	"Collaboration Rules," by Philip Evans and Bob Wolf (HBR July–August 2005) "Coevolving: At Last, a Way to Make Synergies Work," by Kathleen M. Eisenhardt and D. Charles Galunic (HBR January–February 2000)
	External sourcing	*Democratizing Innovation,* by Eric von Hippel (MIT Press, 2005) *Blue Ocean Strategy,* by W. Chan Kim and Renée Mauborgne (Harvard Business School Press, 2004) *Open Innovation: The New Imperative for Creating and Profiting from Technology,* by Henry Chesbrough (Harvard Business School Press, 2003)
Conversion	Selection	"Bringing Silicon Valley Inside," by Gary Hamel (HBR September–October 1999) *Corporate Venturing: Creating New Businesses Within the Firm,* by Zenas Block and Ian C. MacMillan (Harvard Business School Press, 1993)
	Development	*10 Rules for Strategic Innovators: From Idea to Execution,* by Vijay Govindarajan and Chris Trimble (Harvard Business School Press, 2005) *The Innovator's Solution: Creating and Sustaining Successful Growth,* by Clayton M. Christensen and Michael E. Raynor (Harvard Business School Press, 2003)
Diffusion	Spread of the idea	*Payback: Reaping the Rewards of Innovation,* by Harold L. Sirkin, James P. Andrew, and John Butman (Harvard Business School Press, 2007) "Tipping Point Leadership," by W. Chan Kim and Renée Mauborgne (HBR April 2003)

Rate Your Company's Innovation Value Chain

If you want to improve your company's innovation performance, here is a good place to start. Have about 30 employees from a cross-section of functions within the company fill out this questionnaire. Calculate the average score for each activity, and focus your attention on the highest one or two numbers—these are your weakest links.

	Do not agree	Partially agree	Agree	Activity	Phase
Our culture makes it hard for people to put forward novel ideas.	1	2	3	In-house idea generation	High scores indicate that your company may be an **idea-poor company.**
People in our unit come up with very few good ideas on their own.	1	2	3		
Few of our innovation projects involve team members from different units or subsidiaries.	1	2	3	Cross-pollination among businesses	
Our people typically don't collaborate on projects across units, businesses, or subsidiaries.	1	2	3		
Few good ideas for new products and businesses come from outside the company.	1	2	3	External sourcing of ideas	
Our people often exhibit a "not invented here" attitude—ideas from outside aren't considered as valuable as those invented within.	1	2	3		
We have tough rules for investment in new projects—it's often too hard to get ideas funded.	1	2	3	Selection	High scores indicate that your company may be a **conversion-poor company.**
We have a risk-averse attitude toward investing in novel ideas.	1	2	3		
New-product-development projects often don't finish on time.	1	2	3	Development	
Managers have a hard time getting traction developing new businesses.	1	2	3		
We're slow to roll out new products and businesses.	1	2	3	Diffusion	High scores indicate that your company may be a **diffusion-poor company**.
Competitors quickly copy our product introductions and often make preemptive launches in other countries.	1	2	3		
We don't penetrate all possible channels, customer groups, and regions with new products and services.	1	2	3		

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