
The innovation value chain



Innovation isn't all about great ideas. INSEAD Professor of Entrepreneurship Morten Hansen and visiting professor Julian Birkinshaw argue that companies often fail because they don't recognise that innovation is a chain that requires strength at every link to succeed.

The chain starts with idea generation, but then moves to prioritising and funding ideas, to converting those ideas to products and finally to diffusing those products and business practices across the company.

Hansen says that managers who are constantly working to come up with new ideas when there are other problems in the chain actually may be causing more problems. "What you're essentially doing is pumping more ideas into a broken process and that makes it even worse."

He cites one company that was intent on becoming more innovative. "They had a great pool of ideas but management started having more brainstorming sessions ... believing that they just needed more ideas," he said. "Ideas did not get selected or funded and nor did they die. Nothing happened to them at all. They were just floating around and, as a consequence, the company did not develop new products."

This can become an even bigger corporate problem because creative employees quickly become disillusioned when none of the ideas that emerge during brainstorming sessions ever sees the light of day. Those employees eventually leave to find a more innovative place to work.

So, the authors argue, companies need to develop a process, a chain, to get those good ideas to market.

Managers need to improve their selection mechanism for screening and identifying the best ideas, funding them through development, building external and internal networks to roll out those ideas across the company and sustain this ongoing process.



In their research, Hansen and Birkinshaw met many managers who were looking for a one-size-fits-all innovation management solution. They wanted to import a something from a successful company. “One size does not fit all,” Hansen says.

Managers must first understand their unique problem, then they can go out and look for a solution that fits their needs. “That’s a very big difference. It’s

a very big change in the way that you think about improving innovation in a company.”

Hansen says managers require a broader perspective on innovation. He advises managers to “think innovation value chain as opposed to thinking only about a part of the chain or read a book on innovation and think you should be doing that. It may not be what you need. It’s the wrong medicine for you,” he says.

Find the weakest link

Another mistake managers make is to concentrate on their strengths, when what they should be doing is finding and fixing their weakest link. Hansen admits this is counter-intuitive.

“Every company thinks they have a great strength and they should just further that strength. We’re saying that when it comes to the innovation value chain, that’s not correct because your strength can cause further problems down the road,” Hansen said.

Hansen and Birkinshaw have developed assessment tools that help companies evaluate their strengths and weaknesses. “You need to look at the entire process of innovation,” Hansen says. Put simply, companies are idea poor, conversion poor or diffusion poor.

Idea poor may be obvious. Conversion poor means companies are unable to pinpoint the best idea, fund it and bring it to market. Diffusion poor means a company may have a good idea, but cannot generate company-wide support and cannot develop the idea into new products or new markets.

Hansen says Proctor & Gamble and Apple are good examples of companies that have shown real success across the innovation value chain.



“If you look at Apple, they’re very good at generating good ideas. They’re very good at bringing those ideas to market and they are also very good at monetising (them). They are able to further expand the product offering, with different extensions and different versions,” he says, noting Apple’s iPod and iPhone products.

It’s not just about trendy products Hansen says, Apple knows how to take those good ideas and, using the innovation value chain, turn them into successful products.

The prescription works for all types of innovation. Hansen and Birkinshaw define innovation broadly, including products and services, new business models and best practices. “How you do things in a company – that’s also innovation. And all these three elements follow the same process,” Hansen says.

Keep improving the links

Start by finding the weakest link. But the assessment process doesn’t end when a manager fixes one link. Hansen says companies need to keep evaluating the links in the chain and improving them. As one link becomes stronger, managers need to improve the others to keep up.

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