

RELEASE DATE: January 11, 2007

SOURCE: <http://gmj.gallup.com>

GALLUP

MANAGEMENT JOURNAL

CONTACT INFORMATION: The Gallup Management Journal
Editorial and Executive Offices
1251 Avenue of the Americas, Suite 2350
New York, NY 10020
(888) 274-5447

The Four Drivers of Innovation

Top executives and business experts reveal the keys to making your company more creative

by Shelley Mika

A couple of decades ago, when economists forecasted the highest earning countries across the globe, many put their money on Japan as the leader, Germany as the runner-up, and the United States in third place for the largest GDPs in the new millennium. But now that we're seven years into the 21st century, it's clear that those economists lost the bet: The United States' GDP is currently \$12.3 trillion, exceeding the current GDPs of Japan and Germany by about \$8 trillion and \$10 trillion, respectively.

So what happened to make the United States' output soar above economists' predictions? According to some leading executives and management thinkers, the answer is innovation.

In fact, many argue that innovation is the most important driver of macroeconomics today. That's why a group of senior executives and business experts gathered recently in Chicago to discuss innovation, leadership, and the new economy of creativity, knowledge, and invention -- and how to focus these amorphous concepts into real business dollars. Their insights are relevant to executives from businesses large and small, global and local.

“A U.S. Bank executive found out that experience doesn't matter nearly as much as talent. Now, she and her management team focus primarily on talent when selecting salespeople.”

Interpreting innovation

Opening the event, Gallup Chairman and CEO Jim Clifton gave an overview of the history of macroeconomics, making it clear that business leaders are playing in a much different game than they did in the past. Economic centers once formed where resources like cattle or steel were plentiful. Now, these centers emerge where innovation is happening, he said.

Everyone can probably imagine what innovation is. We've seen it in Web sites like MySpace and YouTube and in each iteration of the iPod, and we'll see it again the day a noncombustion engine relieves many nations of their dependence on oil.

But, often the term *innovation* gets confused with *creativity*, according to Barry Conchie, principal leadership consultant at Gallup and a speaker at the event. "Let's be clear: Innovation and creativity are not the same thing," Conchie said. "Creativity may spur innovation, but there's an element of action missing there."

The difference is that innovation actually brings ideas to life. "You can't get innovation without a groundswell of creativity," Conchie said. "But you [must] turn creativity into something that has an impact beyond the conversation you had about the idea." Innovation is more than an idea -- it takes place when great ideas actually happen and make their mark on the world.

In the past, most businesses have focused on continuous improvement of their products and services to maintain a competitive edge. But in today's economy, that's not always enough, Clifton said. As the agriculturalists of the past had to literally break new ground to expand their trade, today's businesses must come up with new ideas, rather than settle for marginally better ideas. In Clifton's words, "*Better* doesn't work anymore. *Different* does."

If innovation is today's hot commodity, how can business leaders harvest it? They must create conditions in which innovation can thrive in their companies. Below are the four drivers of innovation, as identified by executives and thinkers who spoke at the event.

Driver #1: Finding and fostering talent

According to Clifton, four types of people drive innovation: inventors, entrepreneurs, extreme individual achievers in their fields (such as the arts, entertainment, or sports), and super mentors. "The theory is that where these people settle is where new economic empires will be built," Clifton said. "And they go where there is other talent like them." (See "Is the U.S. Losing its Competitive Edge?" and "Managing Those Creative Types" in the "See Also" area on this page.)

Marla Mayne, senior vice president of retail lending at U.S. Bank, knows the importance of hiring the right talent -- people who, based on the way they naturally think, feel, and behave, are likely to be top performers in their field. Her company was looking for sales talent, but even some of the most experienced salespeople weren't superb performers. "One gentleman had results and more than ten years of experience. But just because your stock did well before doesn't mean it will in the future," she said.

That's when Mayne realized she needed to focus on hiring only what she calls "A's" -- the very top talent in sales. Rather than having a staff of 50% A's, she asked herself how she could hire a greater percentage of top performers.

Using selection practices that identify candidates who are most like the best in their roles based on their natural talents, Mayne was able to identify and hire top talent. "We're hiring an 'A' team, and we'll have one thousand loan officers outproducing a company with three thousand loan officers," she said.

Mayne found out that experience doesn't matter nearly as much as talent. Now, she and her management team focus primarily on talent when selecting salespeople. "We can teach them the business, [but] not talent," she said.

Once you've hired these employees, how do you make the most of their talents and foster innovation? Based on Gallup research, Conchie said, employee engagement is highly related to the ability to innovate. (See graphic "The Three Types of Employees.")

Gallup recently asked American employees to rate their workplace on four items:

- My current job brings out my most creative ideas.
- My company encourages new ideas that defy conventional wisdom.
- I have a friend at work who I share new ideas with.
- I feed off the creativity of my colleagues.

For all four items, the percentage of engaged employees who strongly agreed far outnumbered the percentage of not-engaged or actively disengaged employees who strongly agreed. Clearly, creating an environment where employees are engaged can yield a higher crop of creativity, Conchie said. (See graphics "Innovation and Creativity at Work" and "Workplace Friendships Encourage Creativity" below and "Who's Driving Innovation at Your Company?" in the "See Also" area on this page.)

The Three Types of Employees

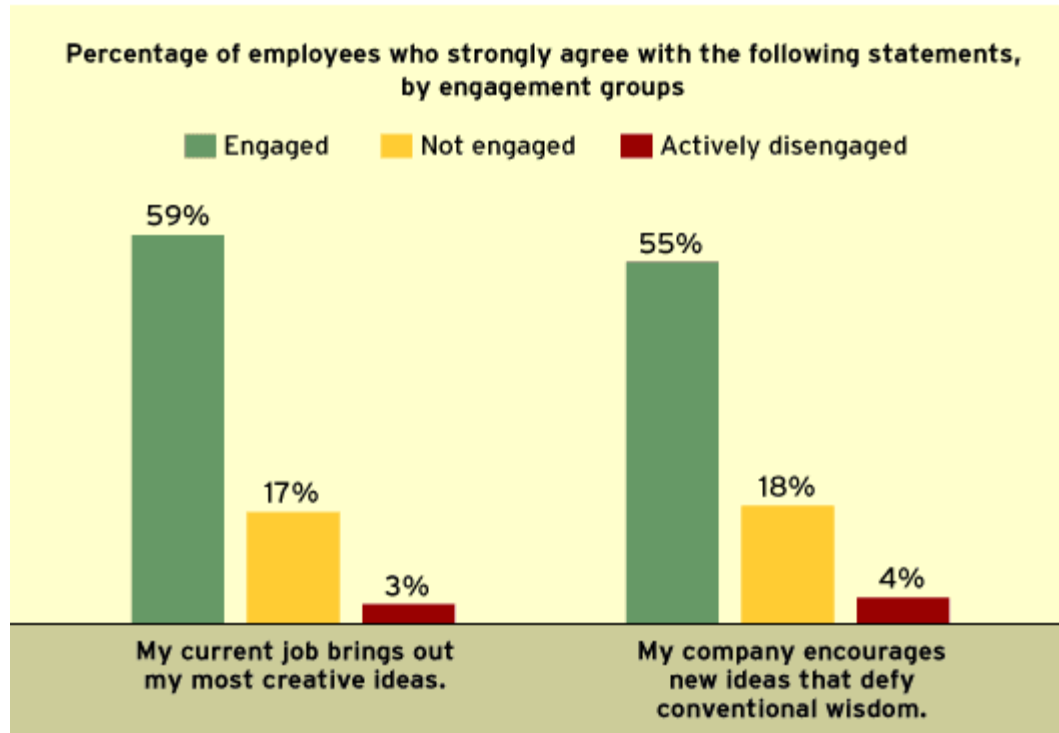
1 ENGAGED employees work with passion and feel a profound connection to their company. They drive innovation and move the organization forward.

2 NOT-ENGAGED employees are essentially "checked out." They're sleepwalking through their workday, putting time -- but not energy or passion -- into their work.

3 ACTIVELY DISENGAGED employees aren't just unhappy at work; they're busy acting out their unhappiness. Every day, these workers undermine what their engaged coworkers accomplish.

INNOVATION AND CREATIVITY AT WORK

Engaged employees are likely to be a company's best source of new ideas: 59% of engaged employees strongly agree that their current job brings out their most creative ideas, while only 3% of actively disengaged employees strongly agree. Engaged employees are also more likely (55%) to strongly agree that their company "encourages new ideas that defy conventional wisdom" than actively disengaged employees (4%).

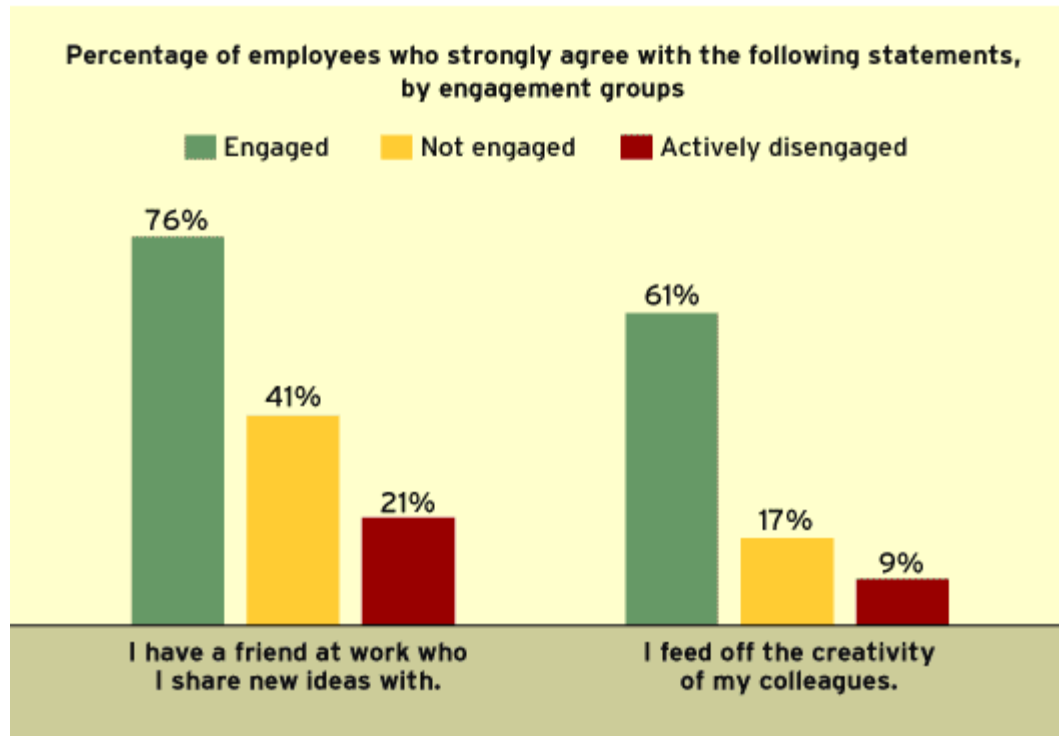


Source: Gallup

Graphic by Tommy McCall

WORKPLACE FRIENDSHIPS ENCOURAGE CREATIVITY

Workplace friendships play a significant role among engaged employees when it comes to setting the stage for idea creation and refinement. About three-fourths of engaged employees (76%) strongly agree with the statement: "I have a friend at work who I share new ideas with." On the other hand, only 2 in 10 actively disengaged employees (21%) strongly agree with this statement. Engaged employees are also more likely to strongly agree that they "feed off the creativity of [their] colleagues" (61%).



Source: Gallup

Graphic by Tommy McCall

Mike Morrison, dean of the University of Toyota, said that one approach to engaging employees is to "incubate" their ideas. "You can't wait by the phone for a breakthrough idea," he said. "You need knowledge, technique, and motivation. If one [element] is missing, you can't have an innovative environment."

Morrison said that when people are relaxed, ideas begin bubbling to the surface. So at Toyota, they periodically take people out of their typical office environments and let them develop ideas in places where the pressure is off and they can brainstorm without the demands of the workplace competing for their attention. The company also provides those people with lots of information and reading material on the subject at hand, hoping to inspire them to

“If leaders are so important in driving innovation -- both in terms of thought leadership and in fostering creativity in the people they lead -- what happens when they step down?”

create bigger and better ideas than those that already exist. These incubation periods yield the breakthrough ideas Toyota is looking for, Morrison said.

Driver #2: Managers matter

Let's not forget that creativity needs action to become innovation. Companies must do more with their employees' creativity than just acknowledging that an employee has a good idea. That's why *managers matter*.

Looking at the four categories of innovators, often the inventors, entrepreneurs, and high achievers would be nothing without that last category: super mentors, Clifton said. "When it comes to innovation, mentors play a key role, because they're the people who say, "That's a great idea. You can make a lucrative business of that,"" Clifton said. Super mentors inspire their protégés and help them connect with the people who can couple action with their ideas -- as some of the best managers do.

In Mayne's case, managers were integral to U.S. Bank's success with its loan officers. Although the bank was hiring A-level loan officers, it found it wasn't able to keep them: U.S. Bank still saw a 60% turnover rate among this crucial group.

To remedy the problem, Mayne decided to assess the manager talent among her staff. It turned out that half of her regional managers were from the "B" or "C" pool. Once Mayne used selection tools that identified people who are most like the best managers -- increasing her regional management staff from 4 A-level managers to 25 -- she started keeping those coveted A-level loan officers. More importantly, she started seeing results. "When you put talent in a fully loaded environment, you get performance out of people," she said.

Now Mayne's team operates with fewer people, but its retention is up, and so are its numbers. Mayne found that loan officers who are:

- A's completed 794 more loan applications per month than B's
- A's closed 624 more loans per month than B's
- A's closed \$66 million more in loans than B's

In addition, when loan offers were divided into two groups by engagement levels and compared, A's in the top half closed 8 more loans per month than A's in the bottom half. Similarly, A's in the top half closed 9 more loans per month than B's in the top half.

At U.S. Bank, hiring the right talent, then making sure that talent was engaged and led by the right managers, made for a lucrative combination.

Driver #3: Relationships matter too

Talented managers usually understand the importance of relationships. "An emotional commitment of one person to another makes a difference. But the control a manager has to enhance or limit [an employee's] contribution to innovation is the most powerful factor," Conchie said. "It's important that [relationships are] cultivated from manager to manager and employee to employee. But we know that the [quality of the]

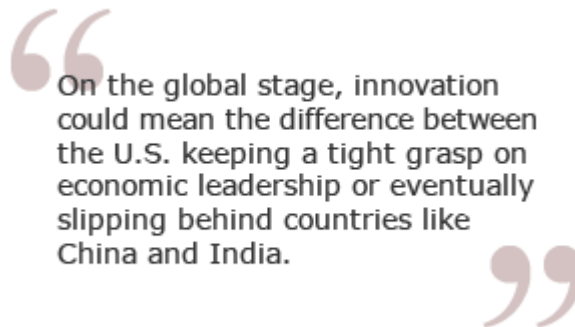
relationship between a manager and an employee affects the ability to leverage that relationship. A bad relationship is a sure-fire way to kill innovation."

A relationship with customers matters too. In the new economy, improving a business model is more complicated than assembling a piece of hardware on an assembly line. To move forward -- to develop the most creative ideas, and most importantly, enact them -- a company must understand the needs of its customers, and that takes a good relationship. "In order to stay ahead of the game, you have to think of a way to connect with customers that makes you different," Conchie said.

Driver #4: Keeping the right leaders

If leaders are so important in driving innovation -- both in terms of thought leadership and fostering creativity in the people they lead -- what happens when they step down? Often, retiring CEOs choose their successors based on instinct or on an assumed company lineage, Conchie said. He shared an example of a manufacturing company that was facing the imminent departure of its CEO. To continue its growth, the company needed a leader with the right kind of talent. But as Conchie said, "The CEO already had a point of view. He was picking the people he admired, not people who could replace him. But you shouldn't think about succession planning without thinking about the loss of talent when the CEO leaves."

As the company set out to evaluate the performance of its key candidates, it learned that those who would typically be considered for the position didn't match the talent profile needed to succeed as CEO. When they assessed potential candidates for their drive to execute and their management, relationship, and direction talents, a different group stood out. Operating on these data, the company chose a successor



“On the global stage, innovation could mean the difference between the U.S. keeping a tight grasp on economic leadership or eventually slipping behind countries like China and India.”

whose talent profile projected success -- and it worked. In just four years, the company grew to \$1.1 billion, and its stock price doubled.

To select the right leaders, Conchie said, companies must ask three key questions:

1. How objective is your company's assessment of current performance and leadership talent potential?
2. Is your company's succession management focused on lining up individuals for positions, increasing overall leadership capability, or both?
3. Is leadership team talent assessed or measured as a precursor to all leadership hiring decisions?

When companies begin asking these important questions, they can begin a formalized process for hiring leaders who are more likely to succeed. And when a data-driven performance review meets a talent-based succession planning model, it creates a powerful combination that allows companies to choose successful leaders -- and

innovators -- who can make a solid future for their organizations. (See "Start Finding Tomorrow's Leaders Now" in the "See Also" area on this page.)

What happens without innovation?

In today's fast-paced marketplace, if a company keeps offering the same product, a rival can easily race past with a better one. And yet another competitor will blow them both out of the water when it invents something altogether different and better -- something innovative. To remain competitive, companies must consider how to find and keep visionary leaders and how to foster innovation and creativity in their employees, the executives and experts at the event agreed.

On the global stage, innovation could mean the difference between the United States keeping a tight grasp on economic leadership or eventually slipping behind countries like China and India, as some economists have predicted. But, those fast-growing countries also face the same challenge.

"Right now, does China have innovation, or does it just make the lowest cost products?" Clifton asked. "If it's bankrupt in terms of innovation, its economy is just as likely to be a bubble as the dot-coms."

Shelley Mika is a writer and editor for The Gallup Organization.

MORE INFORMATION

The Creative Class

The Creative Class now comprises about 30% of the entire workforce. The choices these people make will determine how the workplace is organized, what companies will prosper or go bankrupt, and what brands will survive and thrive.

The Gallup Organization and GSD&M have partnered with Richard Florida to develop the first-ever segmentation study of the Creative Class, shedding light on who they are, how they live, and how they can be reached. By understanding the segments that exist within the Creative Class, organizations can identify the right audiences and deliver the right products and services using the right messages in the right places.

To learn more about the event or to register, visit the [The Creative Class](#) page on the Gallup Consulting site or contact [Mary Penner-Lovci](#) at 212-899-4890, [Krista Volzke](#) at 402-938-6001, or [Amy White](#) at 609-279-2233.

For a complete schedule of learning opportunities, visit the [Learning Events](#) page on the Gallup Consulting Web site.

Copyright © 2007 The Gallup Organization, Princeton, NJ. All rights reserved. Gallup®, A⁸™, Business Impact Analysis™, CE¹¹®, Clifton StrengthsFinder®, the 34 Clifton StrengthsFinder theme names, Customer Engagement Index™, Drop Club™, Emotional Economy™, Employee Engagement Index™, Employee Outlook Index™, Follow This Path™, Gallup Brain™, Gallup Consulting™, Gallup Management Journal®, GMJ®, Gallup Press™, Gallup Publishing™, Gallup Tuesday Briefing®, Gallup University™, HumanSigma®, I¹⁰™, L³™, PrincipalInsight™, Q¹²®, SE²⁵™, SF³⁴®, SRI®, Strengths Spotlight™, Strengths-Based Selling™, StrengthsCoach™, StrengthsFinder®, StrengthsQuest™, TeacherInsight™, The Gallup Path®, and The Gallup Poll® are trademarks of The Gallup Organization. All other trademarks are the property of their respective owners. These materials are provided for noncommercial, personal use only. Reproduction prohibited without the express permission of The Gallup Organization.