The Disciplines of Agile Innovation

Frank W. Capek
CEO, Customer Innovations, Inc.
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Introduction: Customer Innovations Helps Leading Companies Connect Innovation to Profitable Growth Performance

For more than 25 years, we’ve helped leading organizations innovate products, services and experiences that significantly improve the profitable growth performance of their business by transforming the well-being of their customers and employees.

We pride ourselves on helping clients introduce bold, competitively impactful moves while moving quickly and managing implementation and economic risk.

Our work includes the design, development and implementation of:

- **Products and services** that address customers’ needs and priorities while positively and profitably influencing behavior
- Compelling **signature experiences** that attract and inspire customers as well as employees
- **Business relationships** that improve the performance of key partners and channels including distributors, franchisees and other intermediaries
- **Operating models** that align processes, technology, management systems, organizational design and employee experiences in order to deliver effectively
Introduction: Our Clients Include Leading Businesses Across Industries

Consumer / Retail
- L’ORÉAL
- UNITED
- ZALES
- GIORGIO ARMANI
- jiffy lube
- MICHELIN
- Chick-fil-A
- Compassion
- THE WALL STREET JOURNAL

Financial
- Nationwide
- Western Union
- Merrill Lynch
- Fidelity
- ING
- Principal Financial Group
- Securities America
- CHASE

Healthcare
- Novartis
- Delta Dental
- Humana
- OSF HealthCare
- Viiv Healthcare
- Dentegra Insurance Company
- Kaiser Permanente
- Merck

Utilities
- Entergy
- DTE Energy
- NIPSCO
- Dominion

B-to-B
- Allied Barton Security Services
- Convergys
- Comstor
- JM Family Enterprises, Inc.
- Continental Grain Company
- Wayne Farms
- Sinclair

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Amazon’s Continuous Innovation Process

- **Modularized Architecture**: Divide large offerings into thousands of smaller “services”
- **Modularized Organization**: Teams own innovation of a small number of services; releasing changes as they become ready
- **Accelerated Innovation**: Amazon releases an enhancement every 11 seconds, about 8,000 per day

GE Appliances FastWorks

- **January 2013 challenge**: Create a working “French Door” refrigerator in 3 months and production model in <12 months (vs. typical 5 year model cycle)
- **Custom Lean Startup Approach**: Rapid experimentation required changes in leadership, finance, team commitment and supplier relations

Amazon introduces 300,000 changes in the time it takes Staples to issue one new release
Unfortunately, The Pace of Innovation in Most Organizations Significantly Lags the Market

Customer Expectations, Current and Emerging Competition, etc.

Pace of Innovation in Our Market

Pace of Innovation in My Organization

25 - 50 %
More than half of the companies wouldn’t qualify today!

227 companies on the Fortune 500 ten years ago are no longer on the list!
A Wide Range of Leading Companies May Not Be Innovating Fast Enough

10 Great Companies That Lost Their Edge

- Blockbuster
- Dell
- Kodak
- Microsoft
- Motorola
- Sears
- Sony
- Sun Microsystems
- Toys"R"Us
- Yahoo!

9 Iconic Brands That Could Soon Be Dead

- Quiznos
- JCPenney
- Zynga
- Red Lobster
- BlackBerry
- Abercrombie & Fitch

Customer Innovations
Disciplines of Agile Innovation

- Clear Innovation Focus
- Agile Process and Structure
- Collaborative Innovation Behaviors
Disciplines of Agile Innovation

- Clear Innovation Focus
- Agile Process and Structure
- Collaborative Innovation Behaviors
Innovation Investments Fall Into Four Categories

Create Compelling

*Differentiation*

Neutralize Competitors’ Advantage

Increase

*Productivity*

of

Same Outcomes

**Waste** – Failed Attempts at the Above Goals

Focus is critical!

Sources: Geoffrey Moore; Customer Innovations analysis
Behavior is the lynchpin. In practice, a very limited set of behaviors typically drive substantial performance improvements. This can be an important lens for creating a highly focused innovation portfolio.
The Challenge:
Katrina, Rita, Gustav, Ike & Isaac
plus Arkansas Ice Storm

Entergy’s Utility Business
- 5 operating companies across 4 contiguous states: Arkansas, Louisiana, Mississippi, Texas

In 2009, all 5 Entergy Operating Companies were in the 4th Quartile of J.D. Power. Entergy New Orleans was in last place.
Innovation Imperatives

- **Proactive Outage Experience**
  - Proactive Notifications
  - Key Information Elements
  - Update Text Messages
  - Storm Center
  - Annotated Outage Maps

- **Save Me Money Experience**
  - Interactive Energy Statement
  - Save Me Money Advisor
  - Alternative Pay Plans
  - Credit Counseling

**An Outcomes-Based Approach Focused Innovation on the Two Most Critical Behavioral Imperatives**

**Experiential Outcomes**
- What people think?
- How people feel?

**Behavioral Outcomes**
- What people do?

**Business Outcomes**
- How we improve results?

**Design Relationship**

**Causal Relationship**
By Focusing on the Most Critical Opportunities, Entergy Has Begun to Transform Performance

2013 J.D. Power National Ranking

Proactive Outage Communications

- Entergy Mississippi: 29%
- Entergy New Orleans: 26%
- Entergy Arkansas: 25%
- Entergy Texas: 25%
- Entergy Louisiana: 23%
- PSE&G: 14%
- We Energies: 14%
- Con Edison: 13%
- Pepco: 12%
- Southern California Edison: 12%
- Atlantic City Electric: 11%
- L. A. Dept. of Water & Power: 11%
- PPL Electric Utilities: 11%

2013 Average = 6.1%

Over a three year period, Entergy’s overall position on JD Power’s national ranking improved from lower-4th quartile to mid-2nd quartile.
Illustrative Client Example: Nationwide Insurance
Design Focused on Influencing Key Customer Outcomes

Signature Design Interventions

- Vanishing Deductable
- On Your Side Review
- Automatic Discount Finder
- Address Violations of Justice
- Radical Simplicity
- From Complex Choices to Defaults
- Cartopia App

Experiential Outcomes

- Customers feel:
  - Cared for
  - Protected
  - Trusting
- Customers think:
  - They’re looking out for me
  - Saving me money

Behavioral Outcomes

- DECREASE customer churn by xx%
- INCREASE inquiry to close by yy%

Business Outcomes

- Increase customer retention
- Differentiate brand
- Attract new customers
Nationwide: The “Vanishing Deductable” – The Power of Getting the Metaphor Right
### Signature Design Interventions
- Clean, comfortable shop design
- Professional and honest staff
- Discounted services for members
- 24 month / 24,000 mile warranty
- Use of OEM parts
- Active, educational wait experience
- Value-based exposure to added services
- Customer shuttle service
- Open 7 days per week

### Experiential Outcomes
- Customers feel:
  - Connected
  - Protected
  - Trusting
- Customers think:
  - AAA keeps me moving
  - Meets all my automotive needs

### Behavioral Outcomes
- Initial visit traffic
- Return visit
- Cross-sell
- Customer referrals

### Business Outcomes
- Increase non-dues revenue – repair becomes “core” service
- Build traffic to existing core business lines
- Increase total business revenue

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**Illustrative Client Example: AAA Integrated Car Care**

*Design Focused on Influencing Key Customer Outcomes*
Example: AAA Integrated Car Care

The Numbers are Up

Car Count

Sales Per Store

Gross Profit

1st 6 2012  1st 6 2013
Disciplines of Agile Innovation

- Clear Innovation Focus
- Agile Process and Structure
- Collaborative Innovation Behaviors
Mature Companies are Increasingly Trying to Adopt Short Cycle, Experimental Innovation Processes

The process is easy; the real challenges are aligning leadership, building teams and overcoming structural / financial barriers.
The Typical Organizational, Structural and Financial Barriers We See Include…

- Hyper-busyness on urgent operational / maintenance activities
- Limited resources and creative capacity spread across too many activities
- Innovation teams are often:
  - Part time resources working on the margin
  - Representing their function / functional expertise
  - More comfortable with traditional linear approaches
  - Not empowered to make decisions; easily stopped
  - Never really gel around a compelling, unified mission
- Innovation leadership / governance do not support agile approach
  - Lacks urgency and responsiveness on critical decisions
  - Financial hurdles and funding don’t support experimentation
- IT is implementing agile development without integration into a broader agile business innovation processes
Innovating WITH Customers is Almost Always Better than Innovating AT Customers

Innovating AT Customers

“Plan and Push”

Researchers and designers get closer to the state of mind, behavioral pathways, and feelings of the customer

“Engage and Experiment”

Engages customers in the articulation and prioritization of needs, as well as the design of products, services, and experiences

Innovating WITH Customers

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We’ve Found An Agile Innovation Lab Approach Enables Mature Organizations to Innovate Beyond their Comfort Zone

The **Agile Innovation Lab** provides a structured approach and platform for engaging customers and designers along with business stakeholders and outside partners in a more fluid process of innovating new products, services and experiences. Concepts are iteratively defined, tested, validated, developed and deployed in a way that accelerates progress and minimizes risk.

At Entergy, a cross-functional innovation team engaged 250 customers and several enabling technology providers in a structured, collaborative process of creating the next generation experience.
The Lab Leverages Fast-Cycle Experimentation to Move from Ideas into Action

Developing Innovative Product, Service and Experience Concepts

- Understand Customer Goals and Behavior
- Generate Ideas
- Develop Concepts
- Refine Potential Offerings
- Structure & Run Experiments

Fast-Cycle Business Experiments

- Cycle Time: 1-3 Months

Validated Solutions

- Cycle Time: 3-6 Months

Align for Deployment and Profitable Operations

- Define Value Chain Implications
- Detail Operating Model Changes
- Agile Technology Development
- Surface Cultural Changes
- Develop Phased Implementation Plan

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The Lab Provides a Platform for Innovating at the Edge While, Over Time, Reinventing the Core

Core
Critical business capabilities (e.g., processes, resources, systems, management attention) and mindsets that run the enterprise

Edge
Iteratively stimulate and satisfy demand for capabilities that differentiate and innovate the customer experience

Agile Reinvention
Sustainable core/edge balance between enabling and, over time, reinventing the enterprise

Innovate at the Edge → Reinvent the Core
Disciplines of Agile Innovation

- Clear Innovation Focus
- Agile Process and Structure
- Collaborative Innovation Behaviors
“Culture eats strategy for breakfast”

Peter Drucker
<table>
<thead>
<tr>
<th>In Any Given Situation, Innovation Tends to be Constrained by Deeply Entrenched Organizational Behaviors</th>
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<tbody>
<tr>
<td><strong>Managing Backward from the Future</strong></td>
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<tr>
<td>A shared understanding of what the organization is striving to accomplish and the changes in capabilities required to get there</td>
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<tr>
<td><strong>Uninterrupted Line of Sight to Customers’</strong></td>
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<tr>
<td>Shared understanding of what really matters to customers along with the most critical behaviors that impact profitability</td>
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<tr>
<td><strong>Maintaining Aligned Commitment</strong></td>
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<tr>
<td>Mechanisms to ensure stakeholders are personally &amp; professionally committed to achieving an aligned set of objectives</td>
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<tr>
<td><strong>Dissatisfaction with the Status Quo</strong></td>
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<tr>
<td>People are comfortable with challenging the way things are done; there’s a demonstrated bias towards acting on new ideas</td>
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<tr>
<td><strong>Shared Understanding of the Business</strong></td>
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<tr>
<td>Leaders throughout the business know the market as well as our economic model and drivers of profitability</td>
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<tr>
<td><strong>Effective Collaboration – Inside and Outside</strong></td>
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<tr>
<td>It’s easy to collaborate across functions inside the business as well as customers and external service providers</td>
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<tr>
<td><strong>Accountability &amp; Coordinated Action</strong></td>
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<tr>
<td>Teams own the success of project tasks; people hold each other accountable for behavior consistent with their commitments</td>
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<tr>
<td><strong>Capability to Experiment and Learn</strong></td>
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<tr>
<td>There’s a bias towards small, well-structured experimentation as well as a willingness to fail and learn</td>
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<tr>
<td><strong>Unstoppable in the Face of Challenges</strong></td>
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<tr>
<td>People respond constructively to and overcome challenges; progress is not easily stopped; people find a way to make it work</td>
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<td><strong>Effective Collaborative Dialogue</strong></td>
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<tr>
<td>People are comfortable building on the ideas of their colleagues; we identify points of disagreement and establish conditions for dialogue</td>
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<td><strong>Uncompromising Straight Talk</strong></td>
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<tr>
<td>Open communication prevails; no important issues are un-discussable. Background conversations are brought into the foreground to be addressed</td>
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<tr>
<td><strong>Fact-Based Decision Making</strong></td>
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<tr>
<td>Decision makers ensure they have the information they need and work from consistently defined data; decisions are not made based on untested beliefs</td>
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Rather than Taking on the Culture, It’s More Effective To Address Specific Behavioral Barriers

**Issues identified:**

- Teams tend to make untested assumptions about customer priorities that influence the design.
- Innovation projects are launched without anticipating and generating aligned commitment from supporting functions.
- Key stakeholders paying lip service to the program; important team members are “in the stands” rather than “on the field.”
- Sponsorship tends to fragment as teams face of predictable breakdowns.
- Lack of straight talk with sponsors regarding innovation barriers, issues and risks.

**Targeted Interventions included:**

- Built customer collaboration and evaluation points into each iteration of the design
- Mapped all cross-functional implications for the effort and built commitment from supporting functions
- Surfed and resolved latent points of disagreement with key stakeholders. Worked with those stakeholders to reengage team members.
- Improved proactive communications in advance and during predictable breakdowns.
- Orchestrated safe mechanisms for sharing straight talk. Revisited innovation team norms.

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**Innovation Discipline**

<table>
<thead>
<tr>
<th>Innovation Discipline</th>
<th>Weak</th>
<th>Threshold</th>
<th>Strong</th>
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<tbody>
<tr>
<td>1. Managing Backwards from the Future</td>
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<tr>
<td>a. There’s a clearly articulated view of what the organization is aiming to accomplish over 3 - 5 years</td>
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<td>b. The clear view is in the form of a storyline that captures the dynamics of the market</td>
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<td>c. Consistent understanding of the major changes in capabilities, processes &amp; systems required</td>
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<td>d. There’s a readiness for introducing &amp; managing the implementation &amp; integration of these changes</td>
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<tr>
<td>2. Uninterrupted Line of Sight to Customers’ Priorities</td>
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<tr>
<td>a. Each of the key innovation &amp; managers understands what they need to do to support their vision</td>
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<td>b. Managers &amp; managers work and our personally &amp; professionally committed to that success</td>
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<td>c. The innovation &amp; managers specify and address any gaps in commitments required to achieve the vision</td>
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<td>d. Informal discussions normal people are passionately committed to making the articulated vision a reality</td>
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<tr>
<td>3. Generating and Maintaining Aligned Commitment</td>
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<td>a. There’s a strong sense of interdependency, people agree the organization has failed together when failing in isolation</td>
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<td>b. Colleagues hold each other accountable for commitments and confront inconsistent action or inaction</td>
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<td>c. There is a carefully articulated vision of what the organization is striving to accomplish over 3 - 5 years</td>
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<td>4. Relentless Dissatisfaction with the Status Quo</td>
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<td>a. People communicate with challenging and new things can be done in ways that stimulate progress</td>
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<td>b. There’s a recognized need for new tools or even new laws in new technologies</td>
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<td>c. There is an organization wide intolerance for mediocre performance at an individual or collective level</td>
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<tr>
<td>d. There is a strong shared understanding people agree the organization has failed together when failing in isolation</td>
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<td>5. Shared, Intricate Understanding of the Business</td>
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<td>a. Managers understand the market, key customer priorities &amp; the strengths, weaknesses of competitors</td>
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<td>b. Managers understand the importance of internal business and business groups of profitability</td>
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<td>c. There is a strong shared understanding across functional boundaries</td>
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<td>d. There is a clearly articulated vision of what the organization is striving to accomplish over 3 - 5 years</td>
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<td>6. Effective Collaboration – Inside and Outside</td>
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<td>a. The ease to collaborate across functions, we see our efforts as helping other functional teams</td>
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<td>b. We have the capacity to collaborate to learn from the changes, respect to achieve the vision</td>
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<td>c. We collaborate effectively with sponsors on the identification &amp; development of our efforts</td>
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<td>d. The collaboration with internal partners to make that significantly enhance our capabilities &amp; performance</td>
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<td>7. Collective Accountability &amp; Contributed Action</td>
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<td>a. Managers identify and set clear, individual accountability to the organization’s success</td>
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<td>b. Participants ensure the success of the team on personal level, “Me, the responsible for success”</td>
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<td>c. Organizations make sure that all members understand and work towards the same vision</td>
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<td>d. People identify and set clear, individual accountability to the organization’s success</td>
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<td>c. There is a willingness to talk about innovation and effectively use new tools</td>
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<td>d. People communicate with challenging and new things can be done in ways that stimulate progress</td>
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<td>9. Unstoppable in the Face of Breakdowns</td>
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<td>a. People are encouraged to surface issues getting in the way of progress without fear of retribution</td>
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<td>b. People have the capacity to address the issues, without the sessions being a “guilty party” or focus on “face saving.”</td>
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<td>10. Consorative Dialogue</td>
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<td>11. Uncompromising Straight Talk</td>
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<td>a. People are encouraged to share honest and unvarnished feedback on the work of their colleagues</td>
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<td>12. Fast Based Decision Making</td>
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There are Almost Always Deeply Entrenched, Unwritten Rules Inconsistent With the Desired Performance

Business leaders generally assume it’s the **written rules** (strategy, policy, procedures, process definitions, organization charts, compliance, regulation, reward systems) that influence organization behavior. However, actual organizational behavior is based on a set of **unwritten rules** that are more powerful than the written rules. These unwritten rules were never explicitly adopted and often drive behavior no one intends.

- Do whatever it takes to make your numbers
- Product launches drive growth more than service quality
- Always make sure your contributions are visible to your superiors
- If you have to choose, put production ahead of underlying customer needs
- Service resources are expendable
- Protect your turf: your role and your resources
- Make sure you get credit for your ideas
- Preserve flexibility - avoid agreeing to things that limit your ability to control the resources you need to get the job done
- Don’t make mistakes or do anything to look bad in public
- Meet local goals even if they conflict with enterprise goals
- Don’t call someone out or make the other person look bad
- Don’t disagree in front of others
- Don’t ask “Why?”; it’s disrespectful
- Make product milestones even if you have to short-cut requirements, validation, and testing
- Suggesting a new idea without being able to prove it will work can be embarrassing
- Maintain your budget – use it or lose it
- You can get recognized for solving problems but addressing root cause is dangerous
- Asking for help can be seen as a sign of weakness
- Don’t question how things are done, especially if it’s how your manager wants to see it done
- Be prepared to “kiss the ring” in deference to your superiors
- Accept arbitrary budget adjustments delivered from above as your fate
Unwritten rules emerge from the collective intuitive calculations, made by large numbers of individuals, of the sensible ways to survive and thrive in the environment.

Unwritten rules are rarely professed in public. They may be reflected in the advice employees give a friend on how to succeed in the company. In general, however, they operate just below the level of what is rationally discusssable in an open forum.

- Listing the unwritten rules may be interesting but correcting them is often challenging.

  *For example, a surface-level reaction to discovering a widespread unwritten rule to “protect your own turf” may be to try to convince people of the commercial benefits of cross-business cooperation. Exhorting people to change or attempting to force different behavior often exacerbates misalignment, in part by raising stress in employees who feel they are caught between a rock and a hard place.*

- Addressing the unwritten rules requires a deeper understanding of why they make sense in the organizational system. Shifting these rules involves changing these underlying conditions.
M-E-T’s are identified by conducting a series of in-depth interviews with employees in various roles and at different levels in the business unit or department or group that is experiencing problems.

Additional observation and casual discussions are also used to understand the “logic” behind problems and the effects of management action. *Logic chains are created that* synthesize the results of the interview program; points are included only if they are echoed by many people, and consistent with the majority.
Successful Innovation Often Requires Targeted Executive Alignment and Employee Experience Interventions

Completed in Parallel with Innovation Lab Startup

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<tr>
<th>Month 1</th>
<th>Month 2</th>
<th>Month 3</th>
<th>Month 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Launch</td>
<td>Innovation Behavior / Unwritten Rules Diagnosis</td>
<td>Employee Experience Mapping</td>
<td>EE Interventions</td>
</tr>
</tbody>
</table>

Core Team Workshops

- W1 Kick Off
- W2 Rules / Diagnostic
- W3 Opportunities
- W4 Priorities
- W5 Interventions

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Disciplines of Agile Innovation

Clear Innovation Focus

Agile Process and Structure

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