

# Action learning for strategic innovation in mature organizations: key cognitive, design and contextual considerations

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This article lays out a model of action learning for catalyzing strategic innovation in mature organizations that are faced with a new competitive playing field. Central to this model is the development of a set of sophisticated cognitive capabilities—sensemaking, strategic thinking, critical thinking, divergent thinking, conceptual capacity and a malleable learning orientation. The learning design provides challenge, opportunity and support for overcoming organizational orthodoxy that can otherwise hamper innovation. Examples from the Chubb Global Executive Program are used to identify and discuss key cognitive, contextual, learning and design elements of this model.

## Introduction

Today's competitive environment presents difficult challenges for executives in many mature organizations: global competition, industry convergence, disruptive technologies, new entrants, evolving customer needs, and the rapid commoditization of products and services. Facing ongoing growth and earnings pressures, executive sponsors of senior-level action learning programs are increasingly asking participants to 'think differently' about the business, to look at markets expansively, and to conceptualize new sources of customer value that will catalyze new businesses and revenue streams. In the language of the new competitive playing field, they are asking for strategic innovation.

This article lays out an action learning model that we believe catalyzes strategic innovation in mature organizations. Central to this model is a set of cognitive

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capabilities that engender strategic, conceptual and generative thinking. Its learning design provides challenge, opportunity, and support for overcoming organizational orthodoxies that often hamper innovation.

### **The challenge of strategic innovation in mature organizations**

Mature companies often grow into a narrow view of innovation, focusing on the development of new products or services, or the incremental improvement of existing offerings such as adding an extra blade to a razor or offering 15 varieties of toothpaste. Many well-known companies were built using this traditional model of business growth: develop an innovative product or service, expand the market globally, and extend the harvest for as long as possible via a steady stream of product enhancements and brand extensions (Slywotzky & Wise, 2003).

Facing saturated markets, companies have found that this traditional growth model is, at best, a source of incremental revenue replacement given the rate of commoditization and price erosion due to increased competition. As a result, forward-looking companies are focusing on more sophisticated forms of innovation—strategic innovation—to provide a platform for new, sustained growth.

Strategic innovation—a fusion of strategy and innovation—is best understood as innovation at the business concept level. It involves the introduction of new business models (frameworks for creating customer and economic value) that radically transform industry economics and upend entire markets, often at the expense of sleepy industry incumbents. Constantinos Markides (1999) of the London Business School, writes, ‘Strategic innovation is a fundamental reconceptualization of what the business is all about that, in turn, leads to a dramatically different way of playing the game in an existing business’ (p. 42).

The universe of strategic innovation is very broad. A game-changing business model may include a combination of business concept innovation (e.g. Virgin One Mortgage Account), demand innovation, which involves addressing the hassles and issues that surround the product (e.g. General Motors’s OnStar), customer experience innovation (e.g. Progressive Insurance’s concierge claim service), market innovation (e.g. eBay), or redefining adjacent businesses (e.g. Dell’s move into networking, storage and services).

A radical ethos underpins much of the thinking around strategic innovation given its power to transform customer expectations, the rules of competition, and industry economics. ‘Pioneers’, notes Gary Hamel (2003, p. 20), ‘do not make minor adjustments to established business concepts, they rethink them from the ground up in unconventional ways to create entirely new models’. Strategic innovation is crucial to the short-term performance and long-term survival of the enterprise. As Hamel (2003, p. 20) admonishes, ‘a company that is not experimenting with new business concepts is probably living on borrowed time’.

The evidence, however, shows that most strategic breakthroughs are launched by newcomers, the so-called nontraditional competitors, not industry incumbents. Markides (1999, p. 40) points out, ‘it is rare to find an established industry player who is

also a strategic innovator'. Think of Canon versus the incumbent Xerox, First Direct versus Natwest, Barclays, and Lloyds, and Komatsu versus International Harvester and John Deere.

Notwithstanding this imperative, why then is strategic innovation so difficult to achieve in mature organizations? The answer, we believe, may lie in the dynamic interplay between two person-environment factors in mature organizations: cognitive complexity and the invisible hand of organizational orthodoxy.

### *Cognitive complexity*

Strategic innovation is by nature a cognitively complex process requiring sophisticated ways of knowing and higher-order learning capabilities. As Larry Huston (2003), Vice President of Knowledge and Innovation at Proctor and Gamble, points out, 'the scarce resource is rarely money, brand, technology, or distribution ... it's cognitive'.

Although there is a vast body of research on creativity and innovation, less has been written about the cognitive demands of innovation at the business concept level, let alone how to develop these capabilities. As Hamel (2003, p. 20) notes, 'few people [are able to] think creatively and holistically about an entire business concept'.

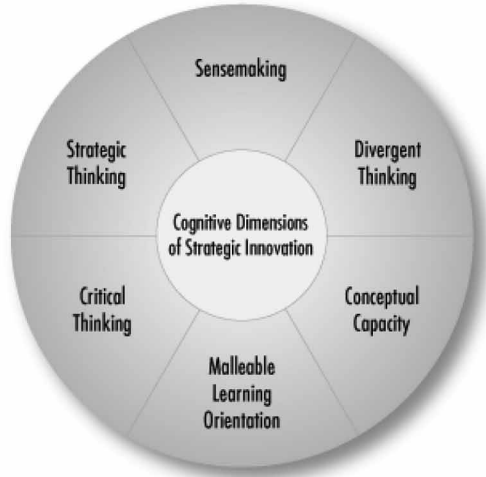
Much of the literature on creativity (see Koestler, 1964; Arieti, 1976; Boden, 1990, Csikszentmihalyi, 1990; Sternberg, 1999) focuses on the mind of the creative genius or the aesthetic rapture (Csikszentmihalyi, 1990) of the creative experience, or alternatively, the highly technical perspective of cognitive science, or brain physiology. The literature on innovation focuses largely on product-level innovation (see Cooper, 1983; Crawford, 1983; Gatignon & Robertson, 1985; Dougherty, 1996).

A number of applied business-oriented writers (Humphrey, 1997; Mauzy & Harriman, 2003) distinguish between creativity and innovation. 'Creativity is about breaking down prior assumptions and making new connectors for new ideas' (Mauzy & Harriman, 2003, p. 6) and generating ideas that are both novel and valuable (Boden, 1994), while 'innovation is doing new things or turning a new idea into a business success' (Humphrey, 1997, p. 137).

Another definition of creativity that is especially relevant to the argument in this article is 'the process of destroying one's gestalt in favor of a better one' (Wertheimer, 1945, cited in Florida, 2002, p. 31). As Picasso noted, 'every act of creation is first an act of destruction' (cited in Mauzy & Harriman, 2003, p. 22). Schumpeter's (1942) 'perennial gale of creative destruction' is also grounded in this ethos (cited in Florida, 2002, p. 31).

Richard Florida (2002) in *The rise of the creative class*, describes creativity first and foremost as the ability to synthesize. Einstein (cited in Florida, 2002, p. 31) coined this 'combinatory play', the ability to come up with combinations that are new and useful. Creativity is also multidimensional and experiential. Psychologist Dean Keith Simonton (1999, cited in Florida, 2002, p. 33), finds that 'creativity is favored by an intellect that has been enriched with diverse experiences and perspectives ... a mind that exhibits a variety of interests and knowledge'.

Jeff Mauzy and Richard Harriman (2003) in *Creativity, Inc.* view ‘divergent thinking, the ability to make mental connections between unrelated matters, ... [as] one commonly accepted indicator of creative capacity’ (p. 12) and the ‘breaking and making connections [as] where most of the work of creativity gets done’ (p. 22).



**Sensemaking.** A ‘macroscopic’ lens to scan and interpret, rapidly reframe, and generate insight into the changing environment. The ability to mine the periphery, to make deep intuitive meaning out of the maelstrom of trends and forces that shape markets.

**Strategic Thinking.** Pattern recognition, the ability to ‘connect the dots’ at a strategic level, to see underlying patterns, discontinuities, and future scenarios, and how they interact to create opportunities for new growth.

**Critical Thinking.** The ability to examine and transform strategic assumptions, orthodoxies, mental models, and other blind spots that impede divergent thinking and strategic innovation.

**Divergent Thinking.** The capacity to expand the boundaries of mental models and see things from many, often paradoxical, perspectives. The ability to break existing frames, and make new combinations among seemingly disparate elements.

**Conceptual Capacity.** The ability to conceive and conceptualize; to think holistically and abstractly in terms of concepts, models and architectures.

**Malleable Learning Orientation.** A malleable, non-linear learning orientation that is ‘at home’ in a dynamic environment rife with ambiguous information, loosely structured problems, deep uncertainty, paradox, and complex tradeoffs. The ability to learn through continuous experimentation as well as from and through experience.

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**Figure 1.** The cognitive dimensions of strategic innovation

Apple founder Stephen Jobs sums it up: ‘Creativity is just connecting things. When you ask creative people why they did something, they feel a little guilty because they didn’t really do it, they just saw something. It seemed obvious to them after a while, that’s because they were able to connect experiences they’ve had and synthesize new things’ (Wolf, 1996, p. 11).

Strategic innovation, however, requires much more than simply ‘being creative’. Conceptualizing new sources of customer value, business models and revenue streams in a complex, dynamic environment requires sophisticated cognitive capabilities as highlighted in Figure 1. This model assumes enterprise-level business acumen—mastery of the language and logic of business irrespective of industry sector—as a baseline competency. We argue that these capabilities—sensemaking, strategic thinking, critical thinking, divergent thinking, conceptual capacity and a malleable learning orientation—characterize the developmental aim of the action learning approach described in this article.

Although positioned as a cognitive framework, this model is grounded in a ‘whole person’ (Yorks & Kasl, 2002) perspective of learning that encompasses various ways of knowing—cognitive, affective, extra-rational. Most strategic breakthroughs are ‘beyond reason’—the product of a deeply intuitive, visceral ‘feel’ for the market that often defies rationality.

We have observed that leaders in action learning programs who acquire these capabilities begin to ‘think differently’ about the business. They learn how to ‘spot the trends that are already changing, but have gone unnoticed’ (Hamel, 2002, p. 5) and over time, develop the ability to ‘see what’s next’ (Christensen *et al.*, 2004).

### *The invisible hand of organizational orthodoxy*

The ability to think in ways that achieve strategic innovation can be hampered by the invisible hand of organizational orthodoxy. Orthodoxies are self-imposed beliefs and theories of success about the business, the boundaries of the industry, the business the firm is in, how customer value is created, the basis of competition, how the value chain is structured, etc. There are both industry-level orthodoxies (the way to do business in this business) and company-level orthodoxies (how we do things around here). A well-known example is Ken Olson’s (founder of the now defunct Digital Equipment Corporation) comments to the World Future Society in 1977, ‘there is no reason anyone would want a computer in their home’. Orthodoxies that we have often encountered in our consulting work include:

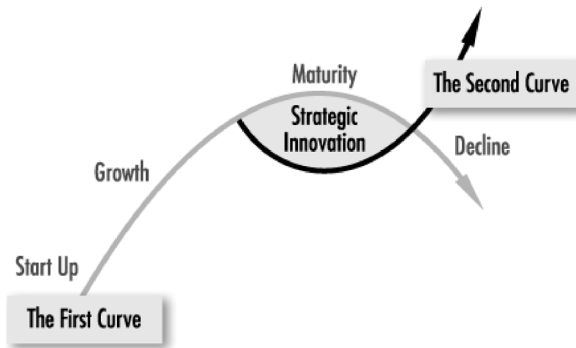
- This is a mature industry . . . there’s no room for innovation in this business.
- This is a commodity business . . . it’s all about scale . . . not innovation.
- This is a cyclical business . . . the art is in riding the pricing cycles.
- This is a highly-regulated industry . . . our hands are tied.
- Innovation equals new products . . . there is no value in being the first mover . . . our innovative products will be imitated by the competition the day they hit the market.
- Our intermediary is our customer . . . we have no access to the end-customer.

Charan and Tichy (1998, p. ix) refer to orthodoxies as ‘the genetic code of the organization, a pervasive set of signals and cues that shape how people think and behave . . . from how they look at opportunities to how well they learn from other people’. C. K. Prahalad (2004, p. 172) refers to orthodoxies as the ‘dominant logic’ of the company, an implicit theory of competition and value creation which is embedded in standard operating procedures, shaping not only how the members of the organization act, but also how they think . . . the lens through which managers see all emerging opportunities’.

So how do orthodoxies, the so-called genetic code or dominant logic of an organization, and their supporting systems actually come into existence? And how do they impede strategic innovation? The classic ‘S-curve’ (Sigmoid Curve) illustrated in Figure 2 provides a framework for understanding this phenomenon.

Organizations of all shapes and sizes undergo a series of life-cycle changes as they evolve from nascent start-ups to established enterprises intent on defending their hard-earned market share. As an organization matures, an entrepreneurial spirit of discovery gives way to complacency, risk aversion, inward focus and incrementalism. The gravitational pull of the past and forces of equilibrium make it difficult to contemplate alternative futures. Core competencies turn into core rigidities (Leonard-Barton, 1995). As a result, companies devote much more energy to optimizing *what is* than to imagining *what could be* (Hamel, 2003), leaving the job of strategic innovation to nimble newcomers.

As Foster and Kaplan (2001, pp. 16–18) note, ‘cultural lock-in—the inability to change even in the face of clear market threats—results from the gradual stiffening of the invisible architecture of the corporation . . . the numbing of its sensemaking capabilities . . . and the ossification of its mental models as they become self-reinforcing, self-sustaining, and self-limiting’. Markides (1999, p. 40) adds, ‘compared to new entrants or niche players, [industry] leaders are weighed down by structural and cultural inertia, internal politics, complacency, fear of cannibalizing existing products, satisfaction with the status quo, and a reluctance to abandon a certain present for an uncertain future’.



**Figure 2.** The S-Curve (Source: adapted from the work of Foster (1986), Tushman *et al.* (1986), Tushman & O’Reilly (1997), Handy (1994), Morrison (1996) Grove (1996) and Pietersen (2002))

Greiner (1972) suggests that organizations move through five phases of development: creativity, direction, delegation, coordination and collaboration. Each phase is characterized by prolonged periods of evolutionary growth and equilibrium punctuated by periods of revolutionary change, often triggered by market discontinuities.

Building on Greiner's work, Tushman, Newman and Romanelli (1986, p. 32) write, 'most successful firms evolve through long periods of convergence punctuated by frame-breaking change'. They characterize this as an ongoing cycle of convergence and upheaval. Convergence is an ongoing process of organizational fine tuning and incremental adaptation to environmental shifts:

Convergent periods are a double-edge sword. As organizations grow and become more successful, they develop internal forces for stability. Organization structures and systems become so interlinked that they only allow compatible changes. Over time, employees develop habits, patterned behaviors begin to take on values . . . and employees develop a sense of competence in knowing how to get work done within the system. These self-reinforcing patterns of behavior, norms, and values contribute to increased organizational momentum and complacency, and a sense of organizational history. (Tushman *et al.*, 1986, p. 35)

Richard Pascale, whose work is grounded in complexity theory, regards this kind of equilibrium as the precursor to death. Pascale (2001, p. 130) suggests, 'companies that achieve homeostasis in their environment may enjoy a period of time when equilibrium really works. But it makes them increasingly vulnerable to the moment when the game changes. Their winning formula from the previous period becomes their own worst enemy'. Tushman *et al.* (1986, p. 36) add:

when faced with an environmental threat, organizations with strong momentum may not register the threat due to organizational complacency . . . or if the threat is recognized, the response is frequently heightened conformity to the status quo . . . and what 'we do best'.

This phenomenon is known in common parlance as the curse of success. The net effect of this curse, write Tushman *et al.* (1986, p. 36), 'may be heightened organizational complacency, decreased organizational flexibility, and a stunted ability to learn'.

Tushman and O'Reilly (1996, 1997), Foster (1986), Handy (1994), Morrison (1996), Pietersen (2000), and Christensen and Raynor (2003) herald the importance of being an ambidextrous organization—an organization that can attack and defend, sustain and disrupt, and harvest today while creating tomorrow—as a way to manage the convergence and upheaval of long-term success. This is no easy feat given the primordial organizational forces at work.

## **The Chubb Global Executive Program**

Despite these barriers, under the right conditions, we believe that action learning can be used to develop the individual and collective capability for strategic innovation. At the heart of this action learning model is provoking and then managing the tension of discontinuity, which in turn thrives on *divergent thinking*. Divergent thinking, as Foster

and Kaplan (2001, p. 19) point out, 'focuses on broadening . . . it is initially more concerned with questions . . . than answers'. Action learning is question-driven, but not all action learning models lead to strategic innovation. We draw on experience with a single case, the Chubb Global Executive Program, to identify and illustrate the design features of action learning that create divergence and catalyze strategic innovation while developing the requisite cognitive capabilities in the course of the projects.

The Chubb Global Executive Program (GEP) was co-developed in 2000 by Jeffrey Kuhn, President of Executive Learning Associates, and Bettina Kelly, Manager of Chubb Global University, and is offered annually to 28 senior vice president (or higher) participants on an invitation-only basis. Chubb's chief operating officer is the executive sponsor.

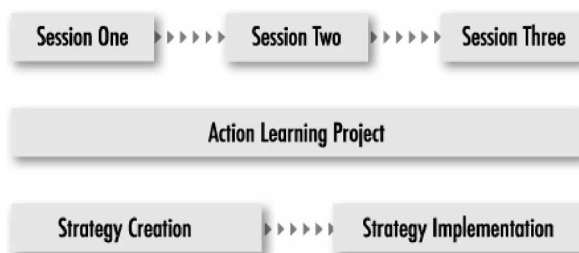
Founded in 1882, the Chubb Corporation is a holding company for a family of specialty property and casualty (P & C) insurance carriers headquartered in Warren, New Jersey, USA. The firm has 12,000 employees serving customers in some 130 field offices throughout the Americas, Europe and Asia. Core offerings include both off-the-shelf and customized risk management solutions for middle-market commercial and high-net-worth personal customers. The company has three core Strategic Business Units (SBUs): Chubb Commercial Insurance, Chubb Specialty Insurance, and Chubb Personal Insurance. Annual revenues are US\$11 billion.

As a specialty P & C carrier, Chubb competes on a differentiated, value-added basis. The company's business model is predicated upon strategic innovation to drive organic growth (growth derived from internal sources) and maintain healthy margins in a mature, relatively commoditized industry.

The US property and casualty insurance industry was a relatively stable, protected industry for most of the twentieth century as a result of Depression-era laws that barred other financial institutions (e.g., banks) from entering the risk transfer business. The competitive landscape changed dramatically in the 1990s with the advent of globalization, deregulation, the Internet, multi-channel distribution, industry convergence and consolidation, chronic price erosion and an evolution from product-based to knowledge-based competition.

#### *Program focus and architecture*

The program is designed to build the individual and collective capability for strategic innovation as a key driver of profitable organic growth. Program aims include: (1) develop enterprise-level business and strategic acumen; (2) master processes for achieving strategic innovation; (3) generate new business models, new sources of competitive advantage, and new revenue streams; (4) create social capital and group learning capability among the high-potential executive population; and (5) foster organizational learning by providing a forum and 'liberating structure' (Yorks & Marsick, 2000) in which to examine industry dynamics, emerging business models and complex strategic issues.



**Figure 3.** Global Executive Program architecture (Source: Jeffrey S. Kuhn, Executive Learning Associates)

GEP features a modular design architecture involving three week-long residency sessions delivered at eight-week intervals and an end-to-end strategic innovation-oriented action learning project. The program has two phases: Phase One focuses on strategy creation, and Phase Two on strategy implementation, as illustrated in Figure 3.

The three residency sessions feature a series of dialogue sessions with thought leaders in the areas of global competitiveness, industry transformation, organic growth, strategic innovation and transformational leadership to provide the macro-economic context for the program, as well as concepts, frameworks and tools for the teams to use on their projects. The thought leader sessions are tightly integrated with the project work.

#### *Project work*

Working with the project sponsor, Chubb's chief operating officer, the projects were framed using criteria consistent with the program purpose: (1) external focus (i.e., involves customers, competitors and markets), (2) potential to identify new sources of customer value and revenue streams, (3) entrepreneurial, and (4) potential for strategic innovation and new sources of competitive advantage (i.e., changes the rules of the game and is difficult to imitate). Additionally, the projects were to: (5) provide a viable economic model, and (6) be commercialized within a one-to-two year horizon.

The action learning projects (referred to as 'business impact projects') focused on identifying new growth engines outside the USA, reflecting a corporate directive to aggressively grow revenues generated from non-US operations. The teams were charged with identifying emerging market opportunities—new customer segments, new distribution channels, new offerings, or new businesses—that would serve as next-generation growth engines for their assigned SBU or geography. Four separate projects (involving seven-person teams) were organized under this common theme. Three of the teams conducted their market analyses from the perspective of a specific SBU. The fourth team examined long-term growth opportunities in China. The project teams were self-organized to reflect maximum diversity.



**Figure 4.** Project flow (*Source:* Jeffrey S. Kuhn, Executive Learning Associates)

*Strategic innovation process.* The project teams utilized the principles of strategic learning (Pietersen, 2002) developed by Willie Pietersen, a former CEO turned strategy professor at the Columbia Business School, as a guiding framework. Strategic learning emphasizes strategic questioning and dialogue—which we regard as the alchemy of strategic innovation—to generate insight into market opportunities and foster critical reflection and awareness of assumptions, mental models, and cognitive barriers in order to catalyze breakthrough thinking. Pietersen was also the lead facilitator and ‘strategist in residence’ for the program. Kuhn and Kelly served as learning coaches, each working with two teams.

The project ‘flow’ is illustrated above in Figure 4. The Opportunity Scanning and Opportunity Definition workstreams addressed the overarching question: ‘Where are we going to play?’ The Business Model Development workstream addressed the question: ‘How are we going to win?’ The Experimentation workstream addressed the question: ‘How do we test, refine, and commercialize our business model?’ The Implementation workstream addressed the question: ‘How do we enter the market and profitably scale up the business?’

*Project launch.* The projects were launched by the executive sponsor during Session One via a highly-charged entrepreneurial message:

... think differently about the business ... don’t come back with incremental, play-it-safe stuff ... get out of the weeds ... think expansively about the market ... look for unique ways to grow the pond ... the executive team will want to see new ideas and revenue opportunities ... bold ideas that will change the rules of the game ... a word to the wise—don’t come back with business as usual, or something that we should already be doing ...

The CEO and other visiting executives reinforced this message throughout the week, and the program.

Each team was provided with a one-page scope document highlighting the project’s background, mission, success criteria and deliverables. With the exception of the China team, which was bound to a specific geography, the three SBU teams could select any geography outside the USA for their growth project.

Following the launch, the teams worked for two days, including an afternoon with the executive sponsor, to further scope their projects, identify key strategic questions, develop a workplan, and grow as a team in preparation for eight weeks of out-of-session project work that would be conducted on a part-time, virtual basis.

*Session two.* The teams reconvened for Session Two following eight weeks of virtual project work. Session Two included a full-day mid-point review with the

executive sponsor, a series of thought leader sessions related to strategy implementation, organizational transformation, executive leadership, and several days of project work.

The mid-point review provided a particularly rich learning experience for participants. The sponsor used a skillful blend of questioning and dialogue to drive out fresh insights and help participants reframe elements of their projects. Here are some examples from his dialogue with the project teams:

- How do you define the opportunity space? What are the boundaries? How are the boundaries likely to evolve? In what imaginative ways can we redefine the opportunity space? What's happening at the periphery?
- What are the key discontinuities in this space and how do they create opportunities for new growth? How ripe is this space for strategic innovation? How long will the door remain open?
- What is the level of uncertainty in this opportunity space? How might these uncertainties impact the economic viability of the opportunity? What are the likely future scenarios?
- What are your underlying assumptions concerning this opportunity? What is your hinge assumption [the make-it-or-break-it assumption that the entire venture rests upon]? How do you plan to test your assumptions?
- Which segments present the greatest potential for profitable growth? How can the segments be redefined in a creative and imaginative way?

As one participant noted: 'Our team would work for hours analyzing the market opportunity from every possible angle, only to be greeted by one of those insightful Tom [the executive sponsor] questions that opened up a whole new way of looking at the situation. Nowadays, I do much less telling and much more asking as a result of this experience'.

*Session three.* Following Session Two, the teams worked for eight additional weeks on a virtual basis before returning for the third and final residency session, which included an engaging full-day strategy session with senior management, facilitated by Willie Pietersen, to review project outputs and identify next steps for commercializing several of the ventures.

### *Program outcomes*

The three SBU-related teams developed game-changing business concepts that offered superior customer value and an attractive economics for Chubb.

The Chubb Commercial Insurance (CCI) project team developed a blueprint for a new business concept which they coined the 'global reach alliance'. The alliance would partner with Western European domestic insurance companies to provide international insurance coverage and related services for their middle-market

clients with international exposures. Their analysis revealed that the evolving macroeconomic environment in Europe, namely the globalization of European middle-market businesses, was rife with opportunity considering the limited reach of single-country domestic insurers. Customer needs were growing, yet moving the business to a global broker or insurer was an unattractive option given their strong national loyalties. Utilizing an ‘outside-in’ lens that carefully mapped customer needs at each point in the value chain, the project team prototyped the ‘global reach alliance’ concept to leverage Chubb’s integrated global platform and deliver superior value to both alliance partners and their customers.

The Chubb Specialty Insurance (CSI) team was driven by a clear mission: identify the ‘next big thing’ that would drive profitable growth in Europe. The team prototyped a business model and product/service offering for accessing, generating demand, and growing the burgeoning market for management liability insurance among middle-market firms in Europe. A number of interrelated forces—EU compliance, Americanization of the legal and financial systems, IPO fever, and the pan-European (and beyond) expansion of operations—were working in concert to create a market for management liability insurance among Europe’s four million middle-market firms. Europe’s two-tiered competitive structure, consisting of large multinational insurers and small, single-country domestic insurers with limited capability and reach, created a significant opportunity for anyone who could deliver an integrated pan-European solution tailored to the needs of the middle market.

The Chubb Personal Insurance (CPI) team prototyped a business model and product/service offering for growing the ultra-high-net-worth (UHNW) segment, a lucrative, multi-billion dollar market. Their analysis revealed that the globalization of personal wealth throughout the 1990s had spawned a new class of ‘globally mobile’ customers with a distinctive set of risk management needs. The team identified a set of common customer characteristics: considerable net worth, multiple properties around the world, significant amounts of valuable articles, an utmost concern for privacy, and, most of all, a desire for best-in-class risk management solutions that are often pieced together by a professionally staffed family office through a network of trusted advisors. The team’s analysis revealed that few competitors had the global reach and capabilities to successfully compete in this space. Chubb could provide an integrated global solution that addressed the risk management needs of this segment.

These project snapshots elucidate the cognitive capabilities needed for strategic innovation highlighted in Figure 1. To illustrate, the CCI Team’s examination of the ‘evolving macroeconomic environment in Europe, namely the globalization of middle market businesses’, and the CPI Team’s insight that the ‘globalization of personal wealth through the 1990s . . . spawned a new class of “globally mobile” customers’, is an example of *sensemaking*—scanning and interpreting the external environment to generate rich insight, and *divergent thinking*—seeing things from many perspectives and making new connections.

The CSI Team’s gestalt that ‘a number of interrelated forces . . . were working in concert’ is a good example of *strategic thinking*—seeing underlying patterns and

discontinuities. Their ability to connect the dots at the macro level (i.e. the globalization of wealth) and then understand how this discontinuity created new customer needs (micro-level analysis) is an example of the dialectical dimension (Brookfield, 2000) of strategic thinking—the ability to move between universalistic and particularistic modes of thinking.

The CCI Team's development of a reverse value chain via their global reach alliance is a good example of *critical thinking*—the ability to examine and transform assumptions, mental models and orthodoxies. The global reach concept challenges the prevailing orthodoxy or dominant logic (Prahalad, 2004) of how insurance carriers go to market, compete, and create customer and economic value. The team's use of rapid prototyping to develop the strategic architecture and economic model of the global reach alliance provides a good example of *conceptual capacity*—the ability to conceive and think in terms of concepts and models.

The ability of each of the project teams to see the interaction of dynamic properties in the external environment (e.g. value migration, industry convergence and market evolution) and use fast conceptual prototyping is illustrative of a *malleable learning orientation*—the ability to learn through experimentation and go 'back to the drawing board' on an iterative basis.

#### *Post program: championing the cause*

Following the successful strategy session with senior management, the three SBU-related project teams remained intact for three-to-six months after the program formally ended to experiment further with their business models and ensure a successful handoff with their respective SBU. As one participant noted,

Great ideas rarely get adopted overnight. There's a whole incubation process that's required to gain traction and move an idea from concept to cash, particularly in a mature organization. We had an ironclad belief in the business opportunity and made a team commitment to champion our venture plan until it was adopted.

#### **Discussion: key contextual and design considerations**

The Chubb program illustrates key contextual and design elements of an action learning model that catalyzes strategic innovation by: (a) developing a set of cognitive capabilities that, combined with core business acumen, engender the requisite strategic, conceptual, and generative thinking skills; and (b) provides challenge, opportunity and support for overcoming organizational orthodoxy that can otherwise hamper innovation.

#### *An environment that is ripe for strategic innovation*

Strategic innovation programs are best suited for dynamic competitive environments fraught with discontinuity (e.g., new technologies, new entrants and deregulation) and fundamental shifts in the broader 'PEST' (political, economic, social

and technological) environment. Action learning programs that foster strategic innovation sharpen the ability of executives to make sense of their changing environment in fundamentally new ways that the organization is not always ready to receive. Executives are challenged not only to scan the environment through their projects, but to also shape the environment by introducing game-changing business models in the market.

The program helps executives develop a high degree of situational awareness of the competitive environment (i.e., an outside-in view of the business) and to engage in divergent, often unorthodox thinking that challenges deep assumptions that are embedded in current business models. But the organization must also be at a teachable moment (Tichy, 1997) and ready to receive the new thinking engendered by the program. A trigger event (e.g., industry consolidation) or discontinuity (e.g., the Internet) may unfreeze the organization, but this alone does not guarantee a readiness or capacity for new thinking as the firm may choose to ignore these clear market threats.

Action learning programs designed to produce strategic innovation as a core program outcome have three unique differentiators which flow from their purpose: (1) the nature of projects, (2) the quality of executive sponsorship and top team involvement, and (3) cohort quality and selection.

First, as illustrated in the Chubb case, strategic innovation-oriented action learning programs involve the creation of real, commercially viable growth engines. The project output moves beyond mere analysis and recommendations. Executives continue to learn by experimenting as they bring their ideas to market well after the program has formally concluded. The projects must be framed to reflect the outside-in nature of strategy, meaning that they must focus almost exclusively on external elements: customers, competitors, and other factors that shape markets and create new growth opportunities. By doing so, executives hone skills in sensemaking, but they also grapple with high-risk, high-gain growth ventures.

Second, executive sponsors and top team leaders must be seen as having or acquiring the strategic capabilities they wish others to develop. Sponsors who have difficulty thinking strategically and creatively beyond the boundaries of the core business can pull the projects into their tactical comfort zone, creating a major disconnect in the program. It has been our experience that executive sponsors of strategy-based programs need to be progressive and forward-looking; have a penchant for strategic innovation and changing the rules of the game; demonstrate enterprise-level business and strategic acumen; and model strategic questioning and dialogue skills. Senior leaders may need coaching in this role as part of the program. It may take several program cycles to develop a critical mass of leaders and sponsors, some of whom may themselves be graduates of the program, who can model leadership needed for strategic innovation.

Third, participants must be chosen for their potential to engage in divergent thinking and innovative action. Participants drawn from a homogeneous pool of so-called 'high potential' talent may have a vested interest in the future, but often have an equally significant investment in the past. Homogeneity breeds intellectual

convergence, the archenemy of strategic innovation. Strategic innovation requires leaders who strike an optimal, often discordant, balance between convergence and divergence.

To overcome the challenge of intellectual homogeneity, Chubb pushed the general guideline for action learning programs—that of ‘maximum diversity’—to its limit in order to create a cohort of highly diverse participants who would bring new questions, new perspectives, and new conversations to the program. The GEP cohort was diverse in every sense of the word—cross-organizationally, geographically, and in gender, age, seniority and learning style.

### *Learning that powers strategic innovation*

Learning that powers strategic innovation must be: (1) integrated into the strategy development process, (2) transformative in nature, and (3) go beyond individual learning to develop a critical mass of leaders who engage in group and organizational learning.

First, action learning programs of this type are grounded in strategic realities. In fact, learning drives the business. Pietersen (2002) demonstrates that fresh insights and learning are essential to breakthrough strategy. When achieving strategic innovation, the task *is* learning. Key to learning is strategic questioning and dialogue. Leaders develop the capabilities and mindset in this form of action learning that lay the groundwork for building strategic innovation as a deep organizational capability.

Second, transformative learning, particularly ‘perspective transformation’, is arguably the underlying engine of breakthrough thinking and strategic innovation. This theory of learning (Mezirow, 1991, 2000) involves the examination and transformation of deeply-held assumptions, mental models, paradigms, and other blind spots that impede divergent thinking and strategic innovation via a process of critical reflection involving deep questioning, reflection and dialogue. Critical reflection, questioning and dialogue in action learning programs can be instrumental in bringing mental models and perspectives into awareness so they can be examined, reframed and transformed. This perspective transformation is at the heart of strategic innovation, a paradigm shift that allows participants to overcome the mental models of the core business and see the market through a transformed lens.

Transformative learning can be brought about through the Questioning Insight process of action learning—Revans’ ‘Q’ learning (Pedler, 1997)—when its focus is honed primarily on strategic innovation. But not all action learning programs are able to support such critical questioning. Yorks, O’Neil and Marsick (1999) developed a typology of action learning programs that shows how organizational ‘noise’ increases with critical reflection. Deep questioning around task, goals and outcomes through critical reflection can lead to transformative learning and organizational culture change, but only if the organization is willing to support the deep change. Action learning designed to produce strategic innovation requires critical reflection to be successful given the emphasis on creating a new growth curve that often challenges the orthodoxies and dominant logic of the core business.

Third, leaders must use their own learning to develop organizational capacity for strategic innovation. In an interview study of strategic learning, the J. M. Huber Institute for Learning in Organizations (2001) found that when innovation is a company's primary business strategy—which is the case for Chubb—learning does not translate into successful business results unless leaders also change the organization. They need to change rewards and incentives, support innovation as a core company value, and help others learn how to function in the new culture of innovation. Action learning can create a 'liberating structure' to develop leaders' capacity and jumpstart this process by fostering the right mix of individual transformation and organizational learning (Yorks & Marsick, 2000).

Action learning does not have to be focused on strategic innovation to create conditions for good peer learning. But such learning is different in three ways in strategy-based project groups. First, participants must learn to work collaboratively and share knowledge or ideas within the project or else they will not maximize the diversity of their cohort. Without divergent thinking, they will not achieve strategic breakthroughs. Second, the program must support experimentation that extends out into the organization during the course of the program. Leaders need to experiment with innovation in a climate where they can learn from their mistakes. Such experimentation ideally surfaces barriers in the organization that will impede divergent thinking and successful strategy implementation. The cohort then can learn to address these barriers and bring them to the attention of senior leaders who need to be engaged in their resolution before the program ends. Third, members must find ways to replicate their own experience with those they lead and manage. This is essential for building capacity outside of the program to carry out innovative projects because, to be successful, employees also need to take on characteristics of strategic innovators.

### *Design that supports strategic innovation*

Key differentiators of design that supports strategic innovation center around the nature of the program's architecture, roadmap, facilitation and design team.

First, the program architecture must integrate content and process, and provide for adequate time to engage in all steps of strategy creation and implementation. All action learning programs benefit from work on a project over time. But some action learning programs are concentrated into two-to-four week blocks. Because of time constraints, project teams are often limited to producing high-level analysis and recommendations.

To overcome organizational orthodoxies, leaders must help the organization to break out of past ways of thinking and acting—and this requires time and space. Repeated cycles of action and reflection help leaders unfreeze mental models and see the business in new ways. Time is required to conceptualize and incubate new business models. As such, an extended modular architecture is recommended. As illustrated by the Chubb program, it is also useful to extend action on projects beyond the program so that maximum benefit is derived through their implementation.

Second, although serendipity certainly plays a major role in strategic breakthroughs, more often than not, participants require some type of process or roadmap to guide the project. Notwithstanding the popular jazz metaphor of innovation, it is unlikely that participants will simply show up from all corners of the globe and ‘jam’ without a modicum of structure and process. The Chubb program used Pietersen’s (2002) strategic learning process as a roadmap for the projects, which is a transformative, second-curve process, unlike some strategy creation processes which are designed to optimize the core business, an incremental, first-curve emphasis.

Third, these programs generally involve a lead facilitator, typically a strategy expert from a business school or consulting firm, to provide the ‘backbone’ (e.g., core content, methodology, process and tools) for the program. Other facilitators complement the core content and methodology provided by the lead facilitator.

A special type of learning coach is also needed who has: (1) strategy development expertise—enterprise-level business and strategic acumen, experience with an array of strategy models and processes, familiarity of the concept-to-cash business incubation life-cycle; (2) executive presence and relationship management skills; and (3) expertise in individual, group, and organizational learning, innovation and enterprise transformation.

In a strategic innovation program, coaches must be aware of their own mental models so that they do not fall into the trap of their own comfort levels (O’Neil, 1999). For example, depending on their professional background, coaches might focus primarily on learning, group dynamics or business issues. Coaches in strategic innovation-oriented programs need to surface and play with the creative tension that arises from disharmony among such perspectives. For that they need a healthy tolerance for conflict and skills in enabling participants to take advantage of differences rather than submerge them so as to fashion new thinking about strategic possibilities.

Fourth, as in any successful action learning program, the design team must weave together the various parts of the program to create a relatively seamless learning system. They need end-to-end expertise in the design, development and delivery of complex, strategy-based executive development programs, including action learning design and facilitation skills. But for this model, skills needed are the same as those needed by coaches. The design team must understand and model the strategic process and the kind of transformative breakthrough thinking and acting that they wish participants to achieve. They need to be alert to ways that experimentation in the program is affecting the system as a whole. The designers must help leaders surface and address the creative tensions and noise that such a program will inevitably produce.

#### *Outcomes that grow people and businesses*

‘Show me the money’ is the operative phrase in strategic innovation programs, since these programs bring the spirit and many of the practices of Silicon Valley to executive learning. The projects must produce a significant economic impact to be sustainable, and be taken seriously by program participants and sponsors of future programs. The first question posed by new participants is invariably, ‘What was

the result (i.e., the economic impact) of last year's program? What got implemented? They rarely ask, 'What did people learn last year?' Despite this dual program mission—people development *and* business impact—the bottom line is very clear: no economic impact, no future programs.

However, this is a two-way street, and the corporation must also 'show me the money' by agreeing up front to fund any ventures warranting corporate seed money. Use of an internal venture capital fund and board is one way to provide corporate funding and oversight of projects that present significant commercial potential.

Action learning programs of this type require a commitment to action that extends beyond the program itself. It takes time to see results from a nascent commercial venture, given the timeframes involved in taking a new business model from concept to cash. A year or more may be required to gain intellectual acceptance and a modicum of traction. Several more years may be needed to operationalize the business plan. Products have to be developed, technology built, distribution channels created, and organizations staffed before the cash register starts to ring. Any consequences will therefore be felt several years later, by other people.

As such, it's best to think of action as an upstream → mid-stream → downstream continuum. Upstream action involves the collective process of strategy creation. Mid-stream action involves translating strategic intent (Hamel & Prahalad, 1989) into an operational plan. Downstream action involves hands-on tactical implementation. Action learning programs designed to produce strategic innovation are in the upstream space, though they may move into the mid-stream space if the project team remains intact after the program has ended. A framework is needed to support learning by experimentation throughout this lengthy process, which calls, in turn, for an organization development mindset.

Both parties—the project team and the organization—must 'show me the money' for these programs to move beyond analysis and recommendation. The project team, the sponsor, the organization and the business unit that will ultimately run the business must be committed to action, for example, taking the initial venture plan developed by the project teams from concept to cash. In this form of action learning, there is no economic impact without action, and without economic impact, there are no subsequent programs.

### **Implications for practice**

As the Chubb case illustrates, action learning can be used to catalyze strategic innovation in mature organizations. We offer the Chubb experience as a single case, noting that there are benefits and limitations to this approach in both similar and different contexts.

#### *Benefits*

This action learning model addresses the age-old challenge of integrating learning and work in a way that drives the economics of the business. Learning is no longer

a sideline activity. It is integrated right into the business with the express purpose of building strategic capability at the individual, group and organizational level. This makes it easier to build the business case for its use because it is a learning-based business initiative that delivers many forms of strategic value.

This approach is also instrumental in fostering individual, group and organizational learning and transformation. By bringing the ethos and practices of Silicon Valley to executive learning, these programs can function as incubators to infuse new, generative thinking and innovative business models into the organization.

Finally, by moving beyond analysis and recommendations and incorporating the end-to-end business incubation life-cycle into the program, this model provides a holistic, enterprise-level developmental experience for participants geared toward strengthening baseline business and strategic acumen, and developing the cognitive dimensions of strategic innovation highlighted in this article.

### *Limitations*

The approach described in this article has its limitations, many of which stem from the fact that the model involves organization development and change. Many things have to be ‘just right’ (or otherwise addressed by the design team) for these programs to produce their desired outcomes: the competitive environment, organizational readiness, the sponsor, the projects, the participant mix, the facilitators, the design team, the learning coaches, to name a few. The industry in which the program is being held might have a slow metabolism rate. The client organization might have an inordinate first-curve orientation or might simply prefer to put its head in the sand in the face of clear market threats. The organization may have a propensity for short-term tactics as opposed to long-term strategy.

Critical thinking and divergence are unsettling. Resistance is a very common response, often expressed in the form of orthodoxies. Participants engage in intense dialogue with the top team, often challenging core strategic assumptions and mental models, and cross every conceivable organizational boundary in the course of the projects. As Kelly noted:

The first year was a bit dicey. The boundary crossing and challenging of assumptions was an entirely new experience for Chubb. The tide clearly turned in the second year (the focus of this article) when we incorporated a more entrepreneurial, ‘show me the money’ element into the projects. The business ventures developed in the program were a real attention grabber in the executive ranks.

However, the ‘show me the money’ factor can be problematic. Participants can easily forget why they are participating in the action learning program in the first place without constant reinforcement of the dual mission of the program: people development *and* business impact. Further, learning and business are so tightly integrated in this model that visiting executives may also lose sight of the program purpose and fail to maintain a developmental lens that balances challenge and support when working with the project teams.

Providing seed money for the projects can also be a dilemma. On the one hand, money must be available to fund early stage development of projects that show commercial promise. However, the mere presence of a venture fund can disrupt the balance between people development and business impact. Conversely, participants may use the lack of venture funding as an excuse for sub-par project work. This tension must be managed productively if the program is to be successful.

### **New world . . . new approaches . . .**

The so-called new economy presents a competitive and cognitive environment that is qualitatively different from earlier economic eras: a world where strategic innovation can be the road to riches but is also a high-risk road that can lead the organization out of business. As reinforced throughout this article, strategic innovation is by nature a cognitively complex process requiring sophisticated ways of knowing and higher-order learning capabilities.

As the Chubb case illustrates, a number of critical design and contextual elements must be considered and carefully orchestrated to overcome the forces of equilibrium and create a learning environment and experience that is ripe and ready for strategic innovation. The model we have laid out in this article is designed to develop sophisticated cognitive dimensions of strategic innovation, but executives who are selected to participate also need baseline business acumen, aptitude for strategic thinking, and an element of creativity, to take advantage of the opportunities provided. Without these fundamental building blocks in place, the program will likely be too much of a cognitive stretch for participants, and will deliver marginal results, both developmentally and in terms of business impact.

Just as the competitive landscape changed, so too must the way companies develop their executive talent. Accordingly, executive development professionals must also ‘think differently’ about the business and develop innovative approaches to action learning, approaches that reflect the complexity, demands, and underlying logic of the competitive environment. The model of action learning laid out here is one such approach to developing global executives with the individual and collective capability for achieving strategic innovation—the lifeblood of the enterprise.

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