Answers for questions to come: reflective dialogue as an enabler of strategic innovation

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Abstract

Purpose – To conceptualize and theorize dialogue's diagnostic as well as generative functions for strategic innovation and organizational change.

Design/methodology/approach – Conceptual development with case illustration.

Findings – Strategic innovation requires shifts in existing mental models of organizational actors that underlie the overall strategy paradigm of a firm. Dialogue as a form of reflective conversation enables actors to alter managers' mental models through conscious, critical exploration.

Research limitations/implications – Conceptual framework introduces reflective dialogue, as a crucial processual element for encouraging shifts in mental maps and as a necessary, but not sufficient condition for strategy innovation; provides an analytical framework for enhancing understanding of the emergent processes of strategic innovation, and for studying shifts in organizational actors' mental models.

Practical implications – Provides organizational change agents and strategists with perspectives and frameworks for appreciating and fostering reflective dialogue in the context of strategic thinking and innovation.

Originality/value – Concept of reflective dialogue and associated frameworks link micro-levels and macro-levels of strategy innovation and address critical process elements.

Keywords Conversation, Reflective listening, Psychology, Innovation, Organizational change

Paper type Research paper

Introduction

Fundamental strategic innovation is a vital, yet unattainable ideal for most firms[1]. While "market driven", incremental innovation manifests itself in new products or services, changes in positioning and other marketing tactics, "market driving", fundamental strategic innovation is achieved by the creation of new competencies and new business models that break the rules of their industry (Hamel and Prahalad, 1994; Markides, 1997). Such fundamental strategic innovation, and the substantial organizational changes it entails, requires that organizational actors' mental maps of their industry, strategy and organization undergo a shift so that they can see things in new ways unconstrained by history (Baden Fuller and Stopford, 1994; Markides, 1997). In the context of organizational change, influencing agents' interpretations through dialogue or communication (Ford and Ford, 1995; Marshak, 1994; Weick and Quinn,

1999) becomes crucial. Given the emergent nature of strategic innovation and the relevance of conversation for processes of change, understanding the conditions of possibility for a shift in mental models is critical for understanding the antecedents of strategic innovation itself. In this context, the aim of this paper is to explore the concept of dialogue, and its potential for altering the mental models of managers, as an important enabler of fundamental strategic innovation.

First, we review the literature on strategic innovation and propose a distinction between incremental, "market driven" strategic innovation and fundamental, "market driving" strategic innovation. In this context, we note the critical role of organizational actors' mental maps and the need for a shift in mental maps to encourage processes of strategy innovation. After discussing the role of mental maps in communities of practice, we then explore the relevance of conversation for processes of change in general and its potential for altering mental models in particular. We focus on dialogue as a reflective form of conversation that can help to reveal mental models and, therefore, make them available for critical explorations, in this way making possible the emergence of new mental models. We then offer a vignette from practice that illustrates some of our arguments. Finally, we discuss implications of our conceptual framework in terms of theory, research and practice of strategic innovation.

In terms of theory, our conceptual framework linking strategy innovation, mental maps and reflective dialogue can help to link industry-level and micro-level perspectives of strategy innovation; can introduce an additional key part of the puzzle, reflective dialogue; and can provide an overall perspective on the emergent process of strategic innovation rather than simply its outcomes. In terms of research, our framework can provide an additional perspective for carrying out empirical research on the complex process of strategy innovation, with particular focus on the communicative aspects of this process. In terms of practice, our framework can help to sensitize managers of the key role of reflective dialogue for strategy innovation, and offer some clues as to how a context encouraging such dialogue can be fostered.

Strategic innovation

Sustainability of competitive advantage seems to be an unattainable ideal for most organizations (Ghemawat, 1986, 2002), and, for most organizations, any uniqueness achieved is likely to be transitory (Markides, 1999). Given the turbulence of competitive environments and the fact that competitors swiftly attempt to imitate (successfully so in most cases) their rivals' innovations, it follows that continuous innovation is crucial to business success. Strategic innovation helps to ensure that firms do not fall into the trap of blindly following "best practices" and management fads, which cannot in any case afford competitive advantage because all their competitors are doing similar things. As they diffuse widely, "best practices" become hygiene rather than differentiating factors. Rather, in order to succeed in a competitive marketplace, organizations should strive to be unique in a significant and sustained way. Such uniqueness resides in coherent, self-reinforcing activity systems or business models (Porter, 1996). As Markides (1999, p. 56) suggests, "the essence of strategy is selecting one position that a company can claim as its own".

Strategic innovation is "the strategy of breaking the rules" (Markides, 1997, pp. 11-12). Strategic innovators can try to redefine their business, or, following Abell's (1980) framework, more specifically the who, what and how aspects of their business.

Kumar *et al.* (2000), distinguish "market driven" from "market driving" firms. Market driven firms follow market developments, and introduce new products and services accordingly; their approach is evolutionary and incremental. Market-driving firms, on the other hand, take actions that redefine their industry, offering novel, outstanding value propositions to the market, through unique activity systems; their approach is revolutionary and radical. Fundamental strategic innovations by market-driving firms are often associated with new entrants to an industry such as Charles Schwab, Dell, or Amazon.

Established companies can foster strategic innovation by monitoring their strategic (as opposed to simply financial) health, and create "positive crises" to overcome inertia and motivate their staff to embrace a new strategic direction (Markides, 1998). Abell (1999) proposes the development of "dual strategies", that address both the present, as well as the future of the business (how the business should be proactively redefined, and new competencies built, for future success). His approach echoes March's (1991) call for balancing exploration and exploitation activities in a firm. Even if feasible new business models are conceptualized, their implementation can be problematic; issues include how to manage the transition from the old to the new, or if a separate operation is set up, whether and how to integrate the existing business model with the new one (Markides, 1998).

Others treat strategic innovation at a broader conceptual level, typologizing it in terms of themes such as "convergence", "universalization", and "consolidation". These themes can occur repeatedly in various industries, as well as be re-adopted over the years by different firms (Choi and Valikangas, 2001). Yet others use metaphors to express their typologies of strategic innovation, which are based on how a company can develop or acquire innovative capabilities. For example, "Pac-Man" companies invest in start-ups and gobble up those that turn out to be worthwhile; or "explorer" companies conduct low-cost experiments to investigate feasibility and solve existing problems that had prevented a strategic innovation from taking place (Loewe *et al.*, 2001).

Implicit in the above approaches are two views of strategy innovation. Evolutionary, market-driven strategic innovation relates to the introduction of new products and services within an existing strategic paradigm and business model. Revolutionary strategic innovation, on the other hand, involves offering a radically improved value proposition to the market, and a substantive shift in the strategy paradigm and business model of the firm. Figure 1 shows these views of strategy innovation:

Recommendations for encouraging strategic innovations in companies abound (Kumar *et al.*, 2000; Markides, 1999). One key requirement for fundamental strategic innovation, however, is to be able to view the industry and the company in a new light. Baden Fuller and Stopford (1994, p. 53) suggest that strategic innovation as the "creation of actions hitherto deemed impossible" requires "a change in the mental models held by managers", or as Choi and Valikangas (2001, p. 425) phrase it, "strategy paradigm-shifts", as companies attempt to institutionalize a climate of questioning and challenging current operating norms and viewing things in new ways (Markides, 1998). One key requirement for achieving fundamental innovation is, therefore, a challenge to existing mental models and the forming of new understandings.
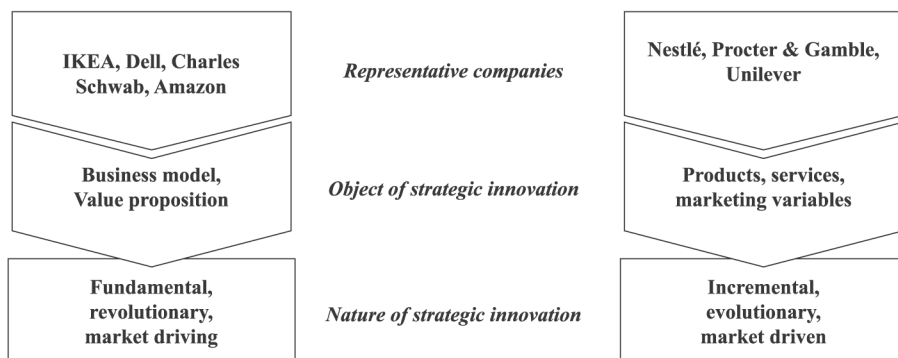
IKEA, Dell, Charles Schwab, Amazon	Representative companies	Nestlé, Procter & Gamble, Unilever
Business model, Value proposition	Object of strategic innovation	Products, services, marketing variables
Fundamental, revolutionary, market driving	Nature of strategic innovation	Incremental, evolutionary, market driven

Figure 1.
Types of strategic
innovation

If fundamental strategic innovation requires a change in managers' mental models, how can such a shift be facilitated? Innovation *per se* cannot be designed, but can be designed for, where the conditions fostering innovation can be put in place. What are then the conditions of possibility of a shift in mental models, as a prerequisite of strategic innovation?

The role of mental models within communities of practice
Mental models are devices through which individuals make sense of current perceptions in the context of longer term perceptive repertoires (Johnson-Laird, 1983; Minsky, 1986; Papert, 1980)[2]. Mental models are highly local and contextual and are developed primarily in the context of social and cultural practices, through discursive interaction. Mental models shape arguments, interpretation and ultimately action. They emerge from and are enacted in what Fish (1980) has referred to as "interpretive communities", communities that share more or less the same "theory" of the world. In organization studies, this concept has been echoed by the concept of communities-of-practice (Brown and Duguid, 1991; Wenger, 1998, 2000). Competent participation in such a community involves a shared understanding of the essence of a community, its norms and relationships, as well as a common repertoire of language, routines, artefacts and narratives.

Integral to the shared repertoire of meaning making in communities-of-practice are mental models. A management team, for example, constitutes such a community-of-practice through a shared understanding that they carry the responsibility for an entire firm or unit. A management team might establish certain norms such as to follow a certain agenda and practice of decision making, as well as developing a local language imbued with industry and organizationally specific jargon. They might develop a shared understanding about what is to be perceived as an opportunity or threat in the business landscape or a strength or weakness in the firm's internal processes. Such a shared understanding may include norms of debate and mutual respect of diverging ideas, a situation, which helps to avoid the psychological bias of groupthink (Janis, 1972). More often than not, members of a community of practice might disagree. However, they ideally do so based on a shared notion of how disagreement and dissent are to be expressed within the communal jargon.

Thus, mental models carry the tacit, taken-for-granted cause-effect assumptions with which phenomena are explained and manifest themselves within and through linguistically mediated interactions. Within an organizational context, Kim (1993, p. 39) defines mental models as providing "the context in which to view and interpret new material, and they determine how stored information is relevant to a given situation". In this respect, mental models are similar to what Argyris and Schön (1978, p. 7) describe as theories-in-use that include "all assumptions about self, others, the situation, and the connections among action, consequence, and situation".

Mental models have a dual, paradoxical effect. On one hand they reduce complexity and thereby enable us to identify a particular course of action as appropriate. On the other hand, it is precisely by reducing complexity that they also lead us to downplay certain data in our search for appropriate action. The latter effect is prominent as we tend to rely on data that confirm rather than challenge our existing mental models (Senge, 1990, 1992, 1994). Owing to their internally coherent nature, confirmatory bias and selective perception, mental models are relatively stable and persistent over time and within communities-of-practice. Ample disconfirmatory evidence and a crisis are often required before existing mental models are challenged and critically examined.

A necessary first step for critically reviewing mental models is to first render them visible. "Making those mental models explicit", Kim (1993, p. 44) suggests, "is crucial to developing new shared mental models". Thus, a critical review of existing mental models makes a shift in mental models possible. Within a view of mental models as linguistically enacted and reified sense making heuristics, the use of language can be a promising way for challenging and revealing key aspects of these models.

Altering mental models through dialogue

Verbal communication figures prominently in managerial work (Mintzberg, 1975; Pondy, 1978). Moreover, as constructionist perspectives have shown, verbal communication is not simply about the transfer of information, but is integral to the construction of meaning (Smircich and Morgan, 1982; Weick, 1995). While an instrumental approach views language as a means of facilitating managerially relevant outcomes (Liedtka and Rosenblum, 1996; Sackmann, 1989), an interpretive approach emphasizes and illustrates how language as symbolic action contributes to the development of shared meanings and identities (Evered, 1983; Smircich, 1983). Shared meanings are socially constructed through linguistic social interaction; and this discursive interaction is both informed by, and informs, mental models (Heracleous, 2004). An interpretive perspective allows us to explore the socially constructive nature of mental models in processes of strategic innovation.

The role of communication in general and of conversations in particular for processes of change has been widely acknowledged in the literature (Barrett *et al.*, 1995; Deetz, 2003; Heracleous and Barrett, 2001; Quinn, 1996; Weick and Quinn, 1999). A significant body of literature suggests that dialogue, as a reflective conversational mode, can enable managers to alter their mental models (Isaacs, 1999; Schein, 1999) and can transform social interactions and relations due to its diagnostic and generative potential (Gergen *et al.*, 2001, 2004).

Ford and Ford (1995, p. 542) propose that rather than viewing conversation as a tool for communicating change, conversation is the very medium through which change occurs. They view change as "a recursive process of social construction in which new

realities are created ... sustained and modified in the process of communication". Drawing on Searle (1969), they argue that change emerges in and results from combining five generic types of speech acts (assertives, directives, commissives, expressives and declarations) that are employed in the social process of meaning generation. They propose a typology of conversations that differ in content and orientation, namely initiative, understanding, performance and closure. Although each of these conversational modes plays a specific role in change processes, it is mainly in conversations for understanding that current mental models might be reviewed and altered. At the level of speech acts, conversations for understanding involve making claims, giving evidence, examining hypotheses, exploring beliefs and feelings, as well as maintaining contentions. These conversations allow managers to clarify their assumptions, intentions and expectations. By rendering visible the taken-for-granted causal linkages, the managers' understandings can be mapped out and understood in order to explore alternative perspectives, relationships, opportunities, threats and actions (Ford and Ford, 1995, p. 563).

The opportunity for managers to see things differently, as well as see different things by engaging in such conversations, results from their threefold potential. Conversations for understanding provide managers with the opportunity to critically examine the underlying assumptions of their thinking and their implications; to collectively develop a shared language that emerges from the social practice of inquiry; as well as to create a learning context in which reflective conversation is being practiced (Ford and Ford, 1995, p. 548). In this context, Ford and Ford (1995) use the concept of dialogue as a synonym for such conversations for understanding.

In contrast to conversations for understanding, conversations of performance and closure tend to operate in a competitive mode of "debate" or "discussion" that are more concerned with "winning" the argument and with advancing particularistic interests than with self-reflection. Such modes of conversation foster organizational cultures in which participants maintain their certainties without openness, and thus suppress deeper inquiry into the root causes of problems (Isaacs, 1993, 1999; Schein, 1993, 1999).

Crossan *et al.* (1999) also maintain that not all communicative forms are equally suitable for critical thinking, shared understanding and subsequent group coherence. They highlight the relevance of a common language to the process of shared understanding. "Language developed through conversation and dialogue allows the evolution of shared meaning for the group" (Crossan *et al.*, 1999, p. 528). Drawing on Isaacs, they suggest that "dialogue is a discipline of collective thinking and inquiry, a process for transforming the quality of conversation and, in particular the thinking that lies beneath it" (Isaacs, 1993, p. 25).

With regard to the diagnosis of mental models, dialogue allows the inquiry into privately held assumptions of organizational participants. As Schein (1999, p. 209) suggests, "We have to listen to ourselves before we can really understand others". Critical reflection on one's own assumptions in a collaborative manner with other participants helps one "to appreciate more the inherent complexity of communication and mutual understanding". Rather than referring to others or speaking for the group, people in the inquiry moment tend to refer to and speak for themselves. Such a shift from "third person data" to "first person data" facilitates the process of discovering and acknowledging the limits of one's own perspective. By mutually agreeing to critically and respectfully examine different viewpoints, participants become more aware of the

nature and limitations of their mental models as linguistic, context-specific constructs (Schein, 1993, p. 43). Utterances of surprise are indicators of such an introspective, reflective moment, as participants come to realize the implicit assumptions in their statements (Isaacs, 1999) and gain conscious access to their own mental models (Schein, 1999, p. 211). By encouraging dialogue as a specific, reflective conversational mode distinct from debate or discussion, the quality of conversation may be transformed, along with the thinking that lies beneath it (Isaacs, 1993, pp. 24-5).

Acknowledging different mental models makes them intelligible and allows for the development of a shared understanding of a particular state of affairs. Isaacs (1999) suggests that this generative potential stems from developing a shared language by crossing boundaries of individual mental models. He proposes that dialogue as a "discipline of collective thinking and inquiry" would allow us to develop new possibilities for thinking and action (Isaacs, 1993, p. 24). Because assumptions and mental models are more visible and, therefore, intelligible, more collaborative inquiry into their determinants can occur. Rather than focusing instrumentally on outcomes, dialogue can allow people to participate in the creation of shared meaning through processes of collectively exploring and reflectively inquiring into patterns of collective thinking (Isaacs, 1999). Such shared learning experiences can provide a basis for developing "an overarching common language and mental model" (Schein, 1993, p. 41). The recursive process of inquiring into existing mental models and thereby developing a shared language of diagnosis contributes subsequently to developing a shared understanding. Processes of intersubjective inquiry will, therefore, "gradually build enough common understanding to allow the collective thought process to surmount the individual thought process" (Schein, 1999, p. 203).

Figure 2 shows this dual nature of dialogue as a reflective conversational mode; a diagnostic moment where participants can review their existing mental models, and a generative moment where emergent mental models may be shaped.
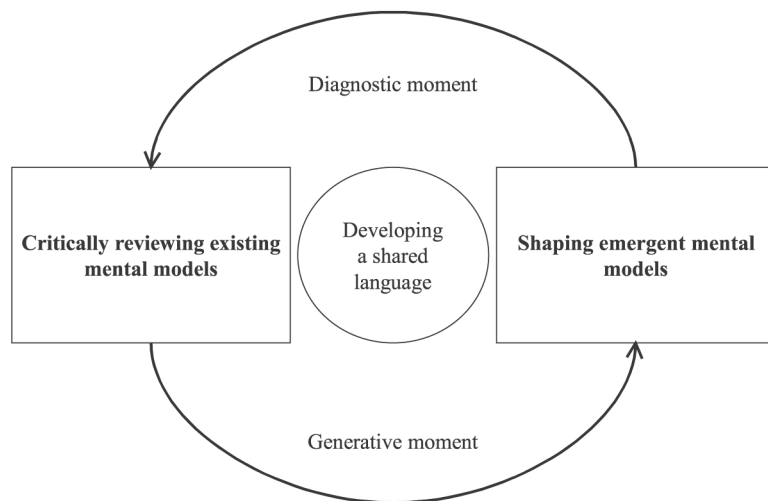
Creating the conditions for dialogue

How can the conditions for dialogue be designed? What are some contextual features relevant to this? A distinction can be made between an organization's culture on one hand, and designing a specific workshop or experiential exercise on the other. With regard to the former, Schein's (1988, 1993) work refers to the evolution of management teams in general and of conversation within such groups in particular. The maturity of a group relates to its problem-solving process and its handling of critical incidents. Lack of openness in communication by people in positions of authority makes reflective dialogue highly unlikely. Mature groups, according to Schein, score highly in the following dimensions: capacity to deal with their environment; basic agreement on mission, goals and values; capacity for self-knowledge; optimal use of resources; optimal integration of communication, decision-making, authority, influence and norms; as well as, the capacity to learn from experience at a collective level (Schein, 1988, pp. 80-1). Openness, transparency in terms of problem solving and acknowledging differences are key elements for managers to role model conversations for understanding rather than closure.

With regard to designing specific experiential exercises, Isaacs and Smith (1994) outline how dialogue can be nurtured within an overall organizational context. To start with, participants should be invited but not forced to participate. They should have the choice whether to take part in the conversation in the first place. Second, listening by paying close attention not only to what is being said, but also more importantly what is said beneath the words (the connotations or implicit associations of verbal exchanges). Third, reflective dialogue requires the observation of the observer, which is a kind of second-order observation. Listening has been identified as a central aspect of the discourses of communities of practice. Rather than being a functional silence in the turn taking of a conversation, listening provides the relational basis for joint meaning generation (Jacobs and Coghlan, 2005; Jacobs, 2003). Finally, dialogue means the suspension of assumptions. Rather than imposing or advocating one's own views, suspension of assumptions is at the core of the diagnostic element of dialogue. Within reflective dialogue, disagreement is seen as an opportunity, not a threat to consensus, providing the opportunity to inquire deeper into the privately-held assumptions that tend to underlie superficial disagreements.

Dialogue as a reflective form of conversation, therefore, holds promise in potentially altering the mental models of those participating in such a conversation. Or, as Schein (1996, p. 31) puts it, the "most basic mechanism of acquiring new information that leads to cognitive restructuring is to discover in a conversational process that the interpretation that someone else puts on a concept is different from one's own".

An illustration from practice

In early 2003, the CEO of a Swiss-based private banking group had planned to launch a major strategy initiative in terms of the group's overall go-to-market strategy. The "I know my banker" initiative was designed to operationalize the bank's aspiration towards a more customer-focused service provisioning. The goal was to provide a distinctive, differentiated private banking service offering to customers that, in the context of broader trends in the banking industry, would be serviced with standardized banking products. To kick off the initiative, the CEO invited her heads of departments, as well as their direct reports, to a one-day management retreat aimed at familiarizing

them with the concept and aligning management accordingly. The workshop – in which the first author participated in his capacity as process facilitator – was designed so as to enable participants to explore dialogically the concept "I know my banker" and its consequences in more detail so that at the end of the workshop they shared mental maps on this theme, and strategic action consequences would take shape.

In a first round of conversations the participants engaged in an intense debate. While some had assumed that the private banking service should benefit all its customers, others kept emphasizing that this initiative should only be applied to a carefully selected segment of the group's customer base. A second round of conversations revealed further ambiguity about the actual intent of the change initiative. While some participants took the concept at face value and speculated on ways that would encourage customers to actually get to know their bankers better – and what that might mean for them as bankers – others followed a more traditional, instrumental path along a "know your customer" logic. A subsequent third conversation finally made the major differences in mental maps related to this theme even more tangible. While on one hand, some participants argued that "I know my banker" was all about technical systems, customer relationship marketing or data mining, others argued from a relationship and trust-building angle. Proponents of the latter view employed metaphors to emphasize the need to establish the "same wavelength" or "getting into the jacuzzi" with customers. The CEO appreciated the workshop conversation that had revealed initial divergences of thinking, building new, shared perspectives, had a significant impact in terms of subsequent bank strategic actions.

Acknowledging the lack of shared understanding revealed by the workshop conversations, the CEO decided to postpone the launch of the change initiative for a few months. The two emergent views (techno-centric vs anthropo-centric) on the subject matter allowed her to adjust the change initiative so as to emphasize the relational aspects while acknowledging the technical implications for the back office functions. After careful reconsideration and redesign along these aspects, the "I know my banker" program was launched successfully in close collaboration with the heads of departments later that year.

The workshop dynamics above illustrate some of the interrelations of dialogue, mental maps and strategic innovation (Figure 3). Designed as an implementation kick-off event, the workshop provided a conversational setting in which an arguably "clear" concept ("I know my banker") was explored through dialogical interactions. It was through the diagnostic moment of the dialogical process of meaning creation and negotiation that differences in viewpoints on the issue at hand were made explicit. While on one hand proponents of a techno-centric, selective view argued for a rather incremental change, proponents of an anthropo-centric, integrative view advocated a more radical shift in the service offering. Both views – emerging from the workshop conversations – can be considered as manifestations of underlying mental maps relating to participants' understanding of the nature of human relations, business, customers, service, etc. Revealing and acknowledging these differences through reflective conversations made it possible for participants to engage in a more generative conversation that would contribute to a more shared view on the theme – and in turn, allowed the management to make necessary adjustments prior to the actual launch of the initiative.
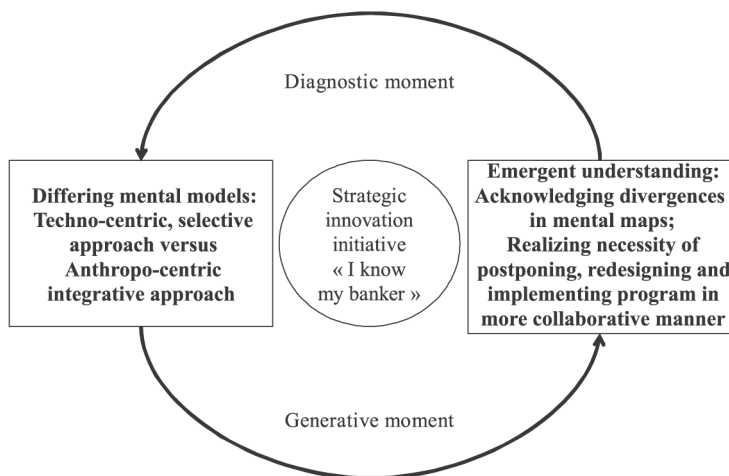
Figure 3.
"I know my banker" –
portrayal of the dialogical
dynamics of a workshop

Discussion and implications

We set out to explore the potential of dialogue in fostering fundamental strategic innovation. Such innovation is encouraged by a shift in the mental models or strategy paradigm of organizational actors. We viewed mental models as cognitive heuristics through which individuals and groups attribute meaning to perceptual inputs. One key feature of mental models is complexity reduction. While complexity reduction on one hand is necessary for taking action in the first place, it also encourages certain myopia by downplaying disconfirming information. In a strategic context, this means that current strategy paradigms tend to be perpetuated while alternative routes and ideas for strategy development might not be explored.

In order to alter mental models of managers, a specific form of conversation for understanding is suggested. Dialogue as a reflective form of conversation allows us to critically review and inquire into the underlying assumptions of individual and collective mental models. During such an inquiry, a collective language is likely to emerge. It is through this common language that emergent, new mental models can take shape. Thus, fundamental strategic innovation *per se* cannot be designed, but only be designed for. Thus, we suggest that dialogue is a conversational condition fostering strategic innovation, as shown in Figure 3.

Viewed from the top down, Figure 4 shows the trajectory of the conceptual development of our argument; strategy innovation requires a shift in mental models, which can be engendered by reflective dialogue. Viewed from the bottom up, the figure also shows the empirical trajectory of how dialogue can foster a shift in mental models, which in turn enables strategy innovation.

This perspective on the interdependence of dialogue, mental models and strategy innovation has implications for theory, research and practice.

In terms of theory, strategic innovation has been viewed in terms of both a macro, industry-level perspective (breaking industry rules, filling gaps in the market), as well as a micro perspective at the individual and group levels (shifts in mental models, new strategy paradigms) (Baden Fuller and Stopford, 1994; Choi and Valikangas, 2001;

Figure 4.
Dialogue as an enabler of
strategic innovation
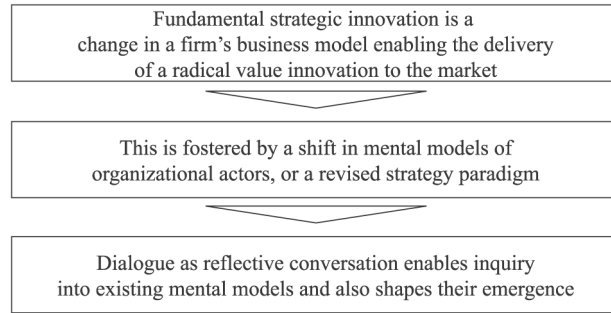
Markides, 1997; Johnson *et al.*, 2003). Our conceptual framework relating dialogue, mental maps and strategic innovation can be potentially fruitful in two main ways. First, it can link these two levels of strategy innovation. This link has been implied in the literature, but making it more explicit can encourage further exploration of the nature of the linkages. For example, what contextual or organizational conditions encourage a shift in mental maps, and do such conditions also encourage fundamental strategic innovation? Is the extent of the shift in mental maps related to the extent of strategic innovation undertaken? How is the substantive nature of the shift in mental maps (new concepts introduced and their relationships among themselves and with already existing concepts) related to the substantive nature of the strategic innovation? Our framework highlights the mental maps – strategic innovation linkage – and problematizes the nature and consequences of this linkage for further research.

Second, our framework introduces an additional key part of the puzzle, reflective dialogue, as a crucial process encouraging shifts in mental maps. This link between discursive interaction and the constitution of mental maps has been acknowledged in the literature, but not within a broader framework linking such shifts with strategy innovation. In so doing, our framework presents reflective dialogue as a necessary, but not sufficient condition for strategy innovation itself. It may also encourage a deeper understanding of reflective dialogue as a conversational mode in more applied terms. The literature on dialogue has been characterized by a certain normative, prescriptive bias (Isaacs, 1999; Schein, 1999). Linking dialogue with the process of strategy innovation can provide a useful context for empirical investigations of the nature and effects of reflective dialogue. In an empirical context, in addition, the non-discursive aspects of reflective dialogue would be amenable to investigation.

In terms of research, reflective dialogue can be utilized as an analytical concept to explore and understand more closely the emergent processes of strategic innovation. Even though we cannot control for serendipity and chance, processes of strategic innovation have specific antecedents, which we can try to understand; we have proposed that one such antecedent is the presence of reflective conversation. In the context of viewing management as an essentially verbal, communicative process, it becomes important to further understand how the use of language can foster critical processes such as strategy innovation.

Along the same lines, by exploring the presence of reflective dialogue, we can also attempt to study shifts in participants' mental models, using the type of methodologies

proposed in Huff (1990), Huff and Jenkins (2002) and Buergi *et al.* (2005); and relate these both with the themes of dialogue, as well as the strategic choices that follow this process. These considerations entail significant methodological challenges for studying strategic innovation empirically. Researchers are rarely present when a radical shift in strategy emerges. However, what can be studied are the organizational practices and culture that provide the context for reflective dialogue to take place, and for strategic innovation to emerge. It would require in-depth researcher involvement and a collaborative mode of inquiry in order to study more closely such social processes.

Finally, for practitioners in their capacity as change agents, the key issues are first to realise the nature and acknowledge the importance of reflective dialogue, and second to learn how to design the conditions that foster such dialogue. These soft aspects of change often receive insufficient attention by change agents, who may not appreciate their importance, and in the process may miss opportunities for using dialogue (as a useful form of discourse) in diagnosing the organization, as well as influencing agents' interpretations to facilitate change (Heracleous, 2002). Managers can play a key role in inviting people in a safe, open setting in which listening and understanding are valued by senior people (Jacobs and Coghlan, 2005). As nobody can be forced into dialogue – a contradiction in terms – it is through the process of a conversation that the reflective dialogue might emerge. Further research could help by identifying certain descriptors or process factors that may create a context that is conducive to processes of reflective dialogue. Understanding more closely the concrete practices that can help or hinder such dialogue remains a theoretical, as well as practical, challenge. The concept of dialogue as an enabler for strategic innovation highlights and hopefully sensitizes practitioners to foster a context that can reveal mental models and make them, therefore, more accessible for critical investigation and change.

In conclusion, in this paper we have argued that fundamental strategic innovation is critical for sustainable competitive advantage; that such innovation requires shifts in existing mental models that underlie the overall strategy paradigm of a firm; and that dialogue as a form of reflective conversation holds promise in helping to alter mental models of managers by revealing them and making them amenable to conscious, critical exploration. Dialogue's diagnostic, as well as generative, functions enable participants to inquire into their existing mental models, thereby collectively developing a shared language that concurrently engenders the shaping of emergent mental models.

Notes

1. By the term "fundamental strategic innovation" we mean innovation in business models or value propositions that is revolutionary and market-driving, as opposed to innovation that is more incremental, evolutionary and market driven, as shown later on in Figure 1.

2. Several terms have been used to describe the mental structures or frameworks that are used as cognitive heuristics for interpretation and evaluation of complex perceptual inputs. These include schemata (Fiske and Taylor, 1991), scripts (Nisbett and Ross, 1980), interpretive schemes (Ranson *et al.*, 1980), knowledge structures (Lyles and Schwenk, 1992) or mental models (Kim, 1993).

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