

# **Leadership Development as a Micro-foundation of Dynamic Capability: A Critical Consideration**

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## **Introduction**

Although organizations that enact dynamic capabilities are not guaranteed success, dynamic capabilities can provide a potential source of improved performance for organizations (Helfat et al, 2007). Indeed, one of the reasons for the prominence that dynamic capabilities currently demands as a research topic is that dynamic capabilities are concerned with organizational performance (Easterby-Smith et al, 2009). Nevertheless, despite the potential dynamic capabilities may hold for micro-organizations, the study of dynamic capabilities within such organizations represents a research gap. The Department for Business, Enterprise and Regulatory Reform define micro organizations as those with ‘up to nine employees’ (Bridge et al., 2009: 175). Micro-organizations play an integral part in the UK economy. Indeed, at the beginning of 2012 enterprises employing between 0-9 people made up 95.5% of private sector enterprises in the UK and contributed 19.9% of the UK’s private sector turnover which equated to almost £624bn (Department for Business Innovation & Skills, 2012). As such, the

study of dynamic capabilities in micro-organizations constitutes an important research gap within the field of HRD in small firms, which this paper begins to address.

Since the inception of dynamic capabilities as a research topic there has been a growing call for advancing understanding of the micro-foundations of organizational capabilities (for example, Felin and Foss, 2005; Teece, 2012). This paper investigates the role that leadership development may play as a potential micro-foundation of dynamic capabilities. Leadership development and dynamic capabilities pay particular attention to the goals of interventions, the importance of context and environmental dynamism; yet their potential to enrich each other's perspectives has rarely been explored. In addition to simply investigating the notion of leadership development as a micro-foundation of dynamic capability, we look to subject this notion to a critical examination.

We begin by outlining the literature on dynamic capabilities, especially the emerging focus on the micro-foundations of dynamic capabilities. We then go on to discuss literature that has led us to consider whether leadership development may act as a micro-foundation of dynamic capabilities. Following this an overview of the methodology adopted to investigate this area will be given. This paper adopts the ontological view of strong structuration theory (Stones, 2005), which we argue highlights the salience of taking a critical perspective on the notion of leadership development as a potential micro-foundation of dynamic capability. The findings of our research suggest that the notion of leadership development as a micro-foundation of dynamic capability is by no means a simplistic one. Political and emotional barriers to this lead us to suggest that critical leadership development could be a more effective micro-foundation of dynamic capabilities than simply leadership development itself.

## **Dynamic Capabilities**

Dynamic capabilities as a topic area came to prominence following Teece et al (1997) seminal article. Since this time much focus has been given to the study of dynamic capabilities (Easterby-Smith et al, 2009). Teece et al (1997) introduced the dynamic capabilities framework to address the question of how organizations may be able to sustain competitive advantage when they operate in dynamic environments. This builds upon the resource-based view of the firm (Teece et al, 1997), which has been criticized by a number of scholars for its inability to explain sources of competitive advantage for organizations operating in such environments (for example, Eisenhardt and Martin, 2000; Priem and Butler, 2001; Wang and Ahmed, 2007).

Since there has been significant disagreement amongst scholars about dynamic capabilities regarding factors such as their level of idiosyncrasy and the degree to which they are patterned (Easterby-Smith et al, 2009), it is important to define how dynamic capabilities are seen within this paper. We adopt Helfat et al (2007: 4) definition of dynamic capabilities, which sees dynamic capabilities as ‘the capacity of an organization to purposefully create, extend, or modify its resource base’. This definition is underscored by the view that dynamic capabilities consist ‘of patterned and somewhat practiced activity’ (Helfat et al, 2007). Nevertheless, we agree with Pandza and Thorpe (2009) who suggests that human agency can also play a role alongside this patterned element. This aligns with Teece (2012: 1397) who suggests that ‘dynamic capabilities...consist of more than an aggregation of routines’ but can also be underpinned by relatively non-routine activities.

## **In Search of Micro-foundations**

There has been a growing call for advancing understanding of the micro-foundations of organizational capabilities (for example, Felin and Foss, 2005; Teece, 2012). Nevertheless, Felin et al (2012: 1351) note that the micro-foundations of routines and capabilities ‘have not received adequate attention’. Understanding the micro-foundations of dynamic capabilities requires gaining understanding of component parts that make up dynamic capabilities. Indeed, Felin et al (2012: 1352) note that ‘a micro foundations approach proffers that an explanation of...collective phenomena requires consideration of lower-level entities’. Felin and Foss (2005) and Felin et al (2012) note that one level of micro-foundations requiring understanding is that of individuals. This mirrors Teece’s (2012: 1395) argument that ‘certain dynamic capabilities may be based on the skills and knowledge of one or a few executives’.

## **Leaders and Dynamic Capabilities**

The quest to find definitive answers about leadership has proved elusive. Leadership defies a single definition - it changes with the situation, and with shifting expectations and demands. It changes in everyday practice. This raises important questions for the study of leadership development in micro firms. As Collinson (2011) writes in his overview of applications of various critical perspectives to theorising leadership and the experience of leadership:

Critical [leadership] studies challenge hegemonic perspectives in the mainstream literature that tend both to underestimate the complexity of leadership dynamics and to take for granted that leaders are the people in charge who make decisions, and that followers are those who merely carry out orders from ‘above’

*(Collinson, 2011: 179)*

Within this paper, we explore critical leadership development as a process which aims to understand the social, emotional and political process of leadership and the different ways it is defined, contested and negotiated between the owner manager and others. Such processes reveal the complexity of the leadership process, one which involves moral and social aspects as well as the instrumental necessity of ‘getting things done’.

The arguments of those who pronounce that the micro-foundations of capabilities need to receive more attention (for example, Abell et al, 2008; Felin et al, 2012) are illustrated when in 2007, Helfat et al (2007) noted that, despite exceptions such as Adner and Helfat’s (2003) dynamic managerial capabilities, people had been largely ignored when considering the evolution of dynamic capabilities. Furthermore, Shang et al (2010: 457) note that ‘for a long time, the dynamic capability theory has not integrated top management and ignored the managerial factors in capability evolution’.

Nevertheless, growing attention has been being given to the role of managers / leaders in the evolution and enactment of dynamic capabilities. For example, Ambrosini et al (2009) suggest that the type of dynamic capabilities utilized can be influenced by manager’s perceptions of the external and internal environment. Schlemmer and Webb (2008) argue that owner-manager’s commitment for developing dynamic capabilities affects their level of involvement in the development of dynamic capabilities. Other studies also highlight the importance of factors such as leadership style (Dixon et al, 2010; Lee and Kelley, 2008; Pablo et al, 2007), leaders’ skills (Pablo et al, 2007), management attention (Eggers and Kaplan, 2009), and management sense making (Pandza and Thorpe, 2009) to dynamic capabilities. Furthermore, the role of managers in resource investment (Sirmon and Hitt, 2009), resource deployment (Lee and Kelley, 2008; Sirmon and Hitt, 2009), resource divestment (Ireland et al, 2003), and absorptive capacity (MacPherson et al, 2004) has been highlighted.

The role of leaders / managers in dynamic capabilities could be argued to be more salient within smaller organizations, since in such organizations owner-managers may have an exaggerated level of power and control (Burns, 1996; Burns, 2007; Schlemmer and Webb, 2008). As such, this provides an interesting context in which to study leadership development as a potential micro-foundation of dynamic capability. The context of the smaller organization is generally under-researched within the dynamic capabilities literature (McKelvie and Davidsson, 2009; Mulders et al, 2010; Zahra et al, 2006). This is even more so the case in the context of the micro-organization (exceptions include, Grande, 2011; Mulders et al, 2010; Schlemmer and Webb, 2008; Vickers and Lyon, 2011), which is the context within which the research for this paper is based.

### **Leadership Development and Dynamic Capabilities**

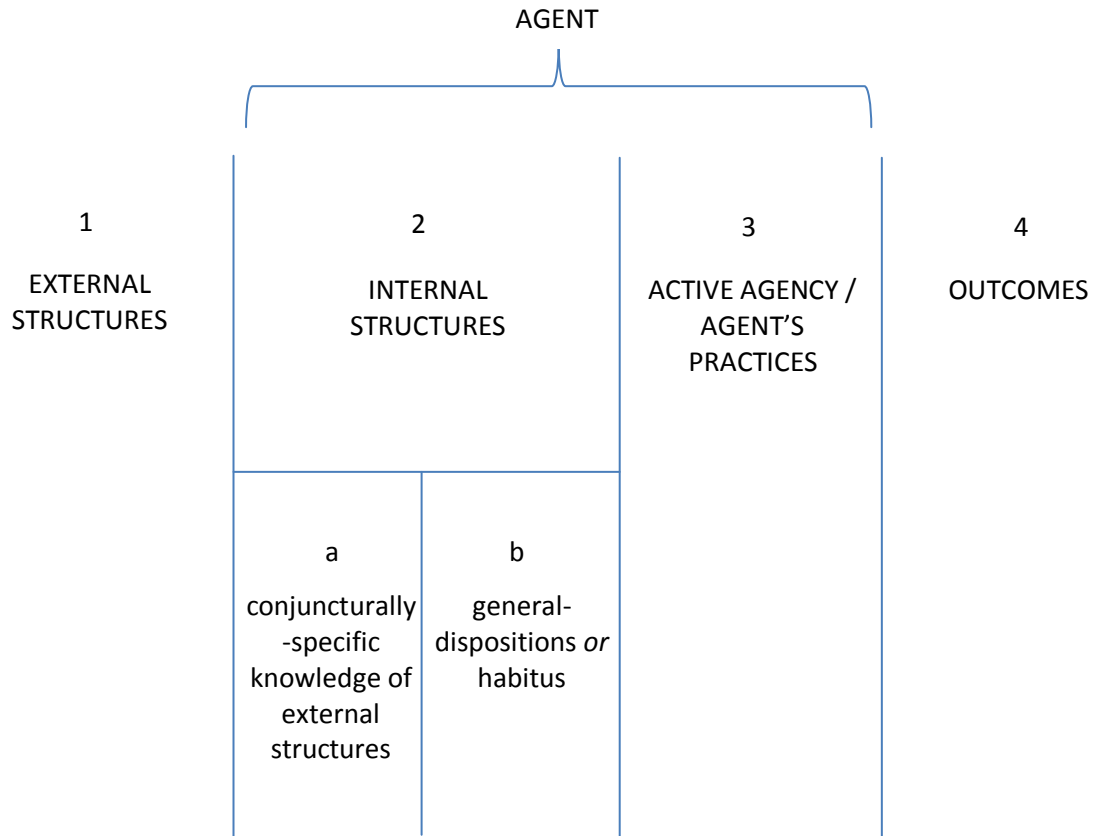
Given the growing recognition of the importance of leaders to dynamic capabilities it seems timely and salient to consider whether leadership development may have the potential to act as a micro-foundation of dynamic capabilities. Our search of the academic literature has so far identified few studies that have looked to investigate this. Nevertheless, there are a small number of studies that allude to the role that individuals' training / learning may play in the development of dynamic capabilities. For example, Grande's (2011: 231) research into micro-organizations in the Norwegian farming sector suggested that 'education level and the type of education possessed by the owner / managers seemed to influence the process of learning and thus building of DC's' (dynamic capabilities). Furthermore, Ó hÓbáin and O'Gorman (2009) suggest a link between training programmes / management development and higher order learning in an Irish SME. They see higher order learning as 'central to the development of the dynamic capabilities' in this organization, thus implying that training programmes / management development could act as a micro-foundation of the development

of dynamic capability. Nevertheless, this work does not place much emphasise on the meanings and perceptions of specific actors who have gone through such development activities and does not take a critical perspective, which we argue it is important to do (see ‘methodology’ section below). As such, while we feel that such literature supports our focus upon whether leadership development may act as a potential micro-foundation of dynamic capabilities, we feel that our study can add to such literature by providing insight from a different context (a UK based micro-organization) and by taking a critical perspective on this issue. Having illuminated the key conceptual debates above, we now highlight our methodological approach.

## **Methodology**

This study is informed by the ontological perspective of strong structuration theory (Stones, 2005), which builds upon Giddens’ (1984) seminal work on structuration theory. Structuration theory was intended to fill the sociological divide between those who gave prominence to the role of social structures in influencing individual action and those who gave prominence to human agency (Giddens and Sutton, 2009; Whittington, 2010), both of which are considered in the findings within this paper.

At the core of strong structuration theory is the ‘quadripartite nature of structuration’ (Stones, 2005: 85): -



*(Stones, 2005: 85)*

This cycle highlights that individuals are faced by external structural forces. The focus upon external structural influences is one way in which strong structuration theory departs from Giddensian structuration theory in that it recognises a greater role for external structural forces to influence the actions of individuals (Stones, 2005). Nevertheless, other than external structures that are completely out of the individual's control i.e. 'they affect the social conditions...in a way that is entirely independent of those incumbent agents' wants, desires and conduct' (Stones (2005: 111) terms these 'independent causal influences'), external structures act to influence the actions of the individual through that individual's internal structures, which equate to their perceptions of the external structures. Indeed, Stones (2005: 86) notes that 'the internal structures...are drawn upon as the 'medium' of agent's conduct'. Stones (2005: 85, 90) differentiates an actor's 'general-dispositional structures' (which



equate to a person's world view) from their 'conjuncturally-specific internal structures' (which 'involve an agent's knowledge of the specific context of action'). It is clear here that human perception and meanings are of fundamental importance to the operation of the quadripartite nature of structuration.

Added to this the role that active agency (which highlights the role of factors such as emotions, creativity, and ordering of concerns) can play in motivating actions (Stones, 2005) and it is clear that it is of utmost importance to understand the actor's perceptions and meanings in order to understand their actions. To close the cycle, the agent's resulting action then produces 'internal and external structural outcomes' (Stones, 2005: 86).

In line with the views of strong structuration theory, both leadership development and dynamic capabilities involve actors (with their complex internal structures and active agency) embedded in social contexts consisting of complex patterns of links with other agents (who also have their own complex internal structures and active agency) (Stones, 2005). Due to the potential role that structural forces and human meanings and perception can play in influencing actions, it is important to subject the notion of leadership development as a micro-foundation of dynamic capability to a critical consideration, in order to recognise and consider such factors should they play a role.

Given the fundamental importance of perceptions and meanings to the above cycle (as indicated by the internal structures and active agency stages of the cycle in particular), the research undertaken for this paper focusses on understanding the perceptions of the owner-manager of one micro-organization (IT Org). Epistemologically, this translates into a predominant focus upon what Stones (2005: 118, 122) terms the methodological bracket of

‘agent’s conduct analysis’ which focusses on the agent’s ‘hermeneutic frame of meaning’. Nevertheless, this also broaches Stones’ (2005: 118, 123) other methodological bracket of ‘agent’s context analysis’ since, as has been argued above, ‘conjuncturally-specific internal structures point both outwards and inwards, and because of this they play a role in both agent’s conduct and context analysis’.

IT Org offers IT related services such as cloud services, disaster recovery services, and operating as a managed service provider. IT Org was set up approximately fourteen years ago and continues to be managed by its founder. The owner-manager undertook an externally run leadership development course, which began approximately three years ago. As such, this provided an opportunity to understand the owner-manager’s experiences and how they may relate to the enactment of a dynamic capability to develop new service offerings in IT Org. IT Org has four employees consisting of one technical director, two engineers, and one administrator.

## **Methods**

Three interviews were conducted with the owner-manager of IT Org between February 2012 and December 2012. A mixture of narrative and unstructured interviewing was used and both narrative and non-narrative data was generated for this study. This study adopts Elliott’s (2005) view, which builds on a definition of narrative by Hinchman and Hinchman (1997), that the three key elements of narrative are that they are chronological, that they can represent meaning, and that they are social. As this indicates, the telling of narratives provides an avenue through which individuals can communicate their perceptions and meanings, something which is integral to the focus of this paper. Whilst meaning can clearly also flow from non-narrative data, Weick (1995) and Czarniawska (1998) suggest that such meaning

flows from the chronological nature of narratives. This chronology is a key advantage that narrative research offers for studies of dynamic capabilities given that organizational development, which takes place over time, constitutes the enactment of dynamic capability. Indeed, Easterby-Smith et al (2009: S4) note that ‘as the *capacity* to effect change, dynamic capabilities remain hidden until exercised’ (italics in original source). As such, narratives provide a beneficial means for understanding organizational development, and therefore, dynamic capabilities, whilst also offering the opportunity for individuals’ meanings and perceptions to surface.

Nevertheless, following a strict approach to generating narrative data and / or only taking account of narrative data during analysis could be restrictive to the findings that could be generated from this study, since some meanings and perceptions may also emerge through non-narrative data. As such, both forms of data were collected for this study.

Broadly the first interview with the owner-manager focussed on understanding the background to IT Org, an overview of the organization e.g. the operations of the organization, developments that had taken place within the organization and the owner-manager’s perception of industry dynamism. It was during this first interview that it became apparent that the owner-manager had participated in the leadership development course and that this may have played some role in the development of IT Org. A second interview followed and this interview focussed on gaining greater understanding of the owner-managers’ experiences of the leadership development course and the effects he perceived the course had on him and his organization. Whilst both of these two interviews had generated substantial data on the development of new service offerings in IT Org, the third interview with the owner-manager looked to gain a more comprehensive understanding of the development of a number of new

service offerings in IT Org. This third interview was more obviously narrative in design in that it loosely followed the narrative interview approach used by Lieblich et al (1998). Nevertheless, it also incorporated unstructured interviewing.

All three interviews were then analysed using an amended version of Lieblich et al (1998) holistic content narrative analysis approach. This amended version of the approach built on the work of Marshall (1995), Lincoln and Guba (1986) and Guba and Lincoln (1989) to add more rigour to the analysis of the interview data. Given the interweaving nature of narrative and non-narrative data in each of the three interviews it was deemed as important, in order to avoid unnecessary complexity that could be detrimental to the findings generated, to deal with the analysis of narrative and non-narrative data using the same analysis approach. As such, the analysis approach used for this study is beneficial in that it enables the analysis of both narrative and non-narrative data.

## **Findings**

### **IT Org's Dynamic Capability to Develop New Service Offerings**

The findings in this paper focus on IT Org's dynamic capability to develop new service offerings. New service offerings refers here to both services that are new to IT Org (for example, when they first offered cloud services to customers) and existing services that have themselves developed within IT Org (for example, the development from offering cloud services through a third party organization to offering cloud services in house).

This dynamic capability is made up of a cluster of common practices (including for example, spotting opportunities through understanding customer requirements, tracking technology, and considering finances), which appear in more than one instance of developments of new

service offerings in IT Org. Such repeatability thus satisfies the requirement that ‘a dynamic capability consists of patterned and somewhat practiced activity’ (Helfat et al, 2007: 5). Individual common practices though are not generally involved in all service developments and the pattern of the practices can vary between different service developments. This provides some support to challenges made to the notion of dynamic capabilities as routines (for example, Eisenhardt and Martin, 2000; Pandza and Thorpe, 2009; Teece, 2012).

The owner-manager and technical director are the two key actors in the enactment of the dynamic capability. They broadly take distinct (although sometimes overlapping) roles within the enactment of the practices involved in the dynamic capability. Whereas the technical director focusses more on factors such as tracking technological developments and implementing technology for new service offerings, the owner-manager tends to focus more on the business side of the development of new service offerings by considering factors such as financial risks involved, and how the technology can fit / can be applied within the organization.

### **The Leadership Development Course and its Initial Impact on IT Org’s Dynamic Capability**

The owner-manager highlights that he recognised the need to pull away from the day-to-day work of IT Org prior to undertaking the leadership development course but that the leadership development course enabled him to take this step back by stressing the need to do this and offering him tools to get more out of his staff, and therefore, free himself to focus on other areas.

While the leadership development course helping the owner-manager to step away from the day-to-day work of IT Org is not the only benefit the owner-manager took from the course, this ability to step back from the organization is perceived by the owner-manager to be an important facilitator of his ability to undertake his practices in the development of new service offerings, by giving him the time to undertake these practices. As such, his ability (or rather inability as will be discussed below) to step back from the day-to-day work of the organization will be at the heart of the discussion in this paper.

The owner-manager took a very tough decision to step back from the organization and he spent approximately six weeks out of the organization. However, organizational structural forces and the owner-manager's agential practices were to undermine the owner-manager's ability to stay out of the organization. These will be discussed below.

### **Problematic Structural Forces**

Since taking himself out of the organization following his learning on the leadership development course, the owner-manager has found himself pulled back into the day-to-day work of IT Org. In particular the cases of an employee leaving the organization, another employee going on maternity leave and new employees not being up to standard and therefore needing to be taken out of the organization, have meant that the owner-manager has needed to work back inside IT Org in order to help the organization survive. Having stepped back into the day-to-day work of IT Org the owner-manager now struggles to step back away from it.

Working within the day-to-day operations of the organization is perceived by the owner-manager to cause an impediment to his ability to reflect on the application of new service offerings within IT Org (which is an integral role he plays in IT Org's dynamic capability to

develop new service offerings), since time is seen as important to this process. As such, the organization acts here as a structural force that impacts upon the owner-manager's ability to partake in the enactment of IT Org's dynamic capability to develop new service offerings. This organizational structural force is made up of the practices of customers (in terms of the pressure for IT Org to meet service obligations to customers) but is mainly made up of the practices of employees.

The impact of employees' actions upon the owner-manager's enactment of his practices in IT Org's dynamic capability to develop new service offerings, implicitly suggests an underlying power relation between the owner-manager and his employees in that employees, through limiting access to resources i.e. their labour power, can affect the ability of the owner-manager to enact his part in the dynamic capability. This problematic elicits emotional reactions from the owner-manager. In particular, his discussions of his struggle to pull away from the day-to-day work of IT Org are interlaced with a tone of helplessness (see 'problematic individual agency' section below) and a feeling of the need for help (see 'discussion' section below).

The role of power in dynamic capabilities represents an under researched area within the field. However, some exceptions to this can be found, an example of which is Sawers et al's (2008) discussion of SME's safeguarding knowledge resources within their dynamic capabilities when collaborating with larger organizations. Furthermore, Tripsas and Gavetti's (2000: 1155) classic study of Polaroid's difficulties in entering digital imaging also highlights the role of conflict and politics 'between senior management and the Electronic Imaging Division' in delaying the development and sale of a digital camera product. Gärtner (2011: 264) argues for the positive impact that mindfulness can have in dynamic capabilities but argues that mindfulness involves power in that 'mindfulness involves the capacity to (re)produce social practices'. Finally, Notions such as Adner and Helfat's (2003: 1020)

dynamic managerial capabilities, which they define as ‘the capabilities with which managers build, integrate, and reconfigure organizational resources and competences’, are also underpinned by implicit power assumptions about managers having the power to influence such resources and competences . Despite such instances, the consideration of the influence of power on dynamic capabilities tends not to be a salient focus within dynamic capabilities literature.

Working from the perspective of strong structuration theory however, power relationships can have an important effect on the degree to which agents are influenced by external structures (Stones, 2005). Since power relationships appear to play an important influence on the owner-manager’s enactment of his practices involved in IT Org’s dynamic capability, as is highlighted above, this suggests that further research into the role of power in dynamic capabilities could be valuable and also suggests that critical leadership development interventions that focus on working through such power issues could be a beneficial micro-foundation of IT Org’s dynamic capability (see ‘discussion’ section below).

### **Problematic Individual Agency**

Whilst the discussion so far has focussed on the structural influences on the owner-manager’s participation in the enactment of the dynamic capability to develop new service offerings, individual agency also appears to play a role in the owner-manager’s involvement in the day-to-day work of IT Org. Indeed, the owner-manager appears to see himself as to some degree to blame for being sucked into the day-to-day work. In relation to the lack of time he faces he states that he needs to fight himself to pull back from the day-to-day work of the organization. He also suggests that he enjoys technology work and that this may be one reason for him being pulled into the day-to-day work. Furthermore, he highlights that he finds



it easy to drop back into the day-to-day work of the organization, and also states that it is hard for him to step back out of the organization because he understands and is comfortable with the day-to-day work.

This agential element to the problematic the owner-manager is facing seems less salient than the organizational structural influence discussed in the 'problematic structural forces' section above, but is nevertheless seemingly an important player in the problem. As such, whilst the owner-manager's discussions of himself being pulled into the day-to-day work of the organization are interlaced with an underlying tone of helplessness, it would appear that the helplessness he feels is not only in terms of his inability to respond to the structural force facing him, but also his inability to conquer himself in some ways.

The preceding discussion highlights that as well as implicit power relations impacting the owner-manager's ability to participate in the enactment of IT Org's dynamic capability, emotional factors are also pertinent to the current problematic faced by the owner-manager. This can be seen in the fact that the owner-manager's enjoyment for technology work and comfort with doing day-to-day work facilitates him being pulled into the day-to-day work of IT Org.

Emotional underpinnings of strategic management have largely been ignored within the field to date (Hodgkinson and Healey, 2011; Huy, 2012). Research on capabilities is no exception to this trend (Hodgkinson and Healey, 2011; Salvato and Rerup, 2011) with rare exceptions such as Pablo et al's (2007: 698) finding that leaders in a regional health authority in Canada used and increased trust between individuals to enable a dynamic capability of 'learning through experimenting'. Whilst the dynamic capabilities literature has highlighted the importance of psychological factors such as management attention (Eggers and Kaplan, 2009), management perception (Ambrosini et al, 2009; Schlemmer and Webb, 2008), and

managerial sensemaking (Pandza and Thorpe, 2009) to dynamic capabilities, such studies generally largely sidestep the emotional factors surrounding these issues (although not always completely as in the case of Ambrosini et al (2009: S13-S14) who suggest that managers may undertake organizational changes which are ‘triggered by *dissatisfaction* with current performance...or may reflect the *desire* of a new manager to make an impact’ (italics added)). For example, although Pandza and Thorpe (2009: S128) argue that ‘managerial agency that are embedded in proactive behaviour, creativity, imagination and intuition’ can constitute part of a dynamic capability, they give very little focus to the role that emotions are likely to play in these.

Taking a strong structuration theory perspective on this issue would challenge such an approach. For example, Stones (2005), like Pandza and Thorpe (2009), notes that one potential aspect of active agency is creativity. This creativity, Stones (2005) argues, involves action resulting from the combining of the agent’s general dispositional internal structures and the specific situation they face (which relates to their conjuncturally specific internal structures). Stones (2005), in a further discussion of active agency, highlights the role that emotions can play in the influence internal structures can have on an agent’s actions, thus implicitly, based on his discussion of creativity described above, suggesting a role for emotions in the process of creativity: -

‘both conscious and unconscious emotions can have an autonomous affect on the way that both general-dispositional and conjuncturally-specific internal structures are, first, mediated and perceived, and, then, are drawn upon by agents in the production of practices’

(Stones, 2005: 103)

This influence of emotions on individuals' cognition and actions is backed up by prior research on emotions, as is highlighted by Huy (2012). The effect of emotions on decision making is one of the key areas of focus in the relatively new field of neuroeconomics (Loewenstein et al, 2008), this being one of the fields that Hodgkinson and Healey (2011: 1501) suggests challenges the tendency that 'extant literature on the psychology of strategic management...has emphasized behavioural and cognitive aspects of strategy formulation and implementation at the expense of emotional and affective ones'.

The findings from IT Org suggest that emotions can play a critical role in the enactment, or rather non-enactment in this case, of dynamic capabilities. This adds empirical support to the calls for more focus upon emotions in future capabilities (Hodgkinson and Healey, 2011; Salvato and Rerup, 2011) and strategy (Huy, 2012) research. Furthermore, this highlights important implications for the role that leadership development may play as a micro-foundation of dynamic capability as will be discussed in the 'discussion' section below.

## **Discussion**

Despite the owner-manager's occasional asserting that he can pull away from the organization himself, he also states a stronger desire for help in doing this. One of the elements of the leadership development course that the owner-manager found value from when he undertook the course was the business mentoring aspect of it and he feels that further such mentoring would enable him to step away from the organization once again. This fits with the owner-manager's strong view that leadership development needs to be repeatable since otherwise the initial benefits gained from it will diminish. Since the leadership development helped the owner-manager to step away from the day-to-day work of IT Org,

this suggests the potential for repeatable leadership development to be a micro-foundation of IT Org's dynamic capability to develop new service offerings.

Nevertheless, such a proposition must be subjected to a critical examination. From the preceding discussion it appears that there are two factors that are important to highlight when taking a critical perspective on leadership development as a potential micro-foundation of IT Org's dynamic capability. The first of these is the implicit power that employee actions have over the owner-manager's ability to undertake practices in the enactment of the dynamic capability to develop new service offerings. The second is the emotional tension involved in the problematic faced by the owner-manager.

As such, whilst repeatable leadership development in this case could potentially act as a micro-foundation of IT Org's dynamic capability to develop new service offerings, it is proposed here that a *critical* element to leadership development, which engages in understanding and working through the underlying power structures and emotional factors and contradictions involved in the difficulties the owner-manager is facing, could act as a more effective micro-foundation of this dynamic capability. Indeed, Hodgkinson and Healey (2011) highlight the benefits of harnessing and managing emotions for the effectiveness of dynamic capabilities. Huy (2012) also suggests that emotion management can be important for organizational outcomes and in line with this Huy (2005: 3) introduced the notion of 'emotion-based dynamic capabilities' which are aimed at eliciting positive emotional states amongst organizational members to facilitate change in organizations. Furthermore, Gärtner (2011) suggests that mindfulness, which he argues can positively influence dynamic capabilities, can be encouraged (depending on context) by eliciting, amongst other things, positive emotions. It is important, however, not to simplify the notion of harnessing and managing emotions. As can be seen from the case of IT Org's owner-manager his emotions are not all projected in one direction but rather are contradictory. There is a tension between

the owner-manager's enjoyment for technology work and comfort with doing the day-to-day work facilitating him moving into the day-to-day work of the organization as against the somewhat conflicting apparent frustration and feelings of helplessness underpinning his inability to put what he learned on the leadership course into practice once more and again step back from the day-to-day work of the organization. Indeed, Stones (2005: 85) draws on the work of Craib (1992) to incorporate the notion of such contradictions within the active agency stage of the 'quadripartite nature of structuration'. A critical leadership development intervention that engages deeply and closely with such contradictions could be one potential way of moving towards this harnessing and management of emotions.

The findings of this study suggest that critical leadership development needs to engage deeply with the specific individual(s) involved and the specific situations they face when attempting to work through the underlying power structures and emotional factors impeding IT Org's owner-manager's ability to participate in the enactment of IT Org's dynamic capability. This is because the salience of power and emotions to the owner-manager's enactment of the practices supports the notion of dynamic capabilities as idiosyncratic (Teece et al, 1997) and context specific (Helfat et al, 2007). The personalised nature of emotions, and the role emotions can play in active agency (Stones, 2005) clearly suggests an idiosyncratic side to dynamic capabilities, given that such dynamic capabilities are made up of the practices of individuals whose practices can be affected by such emotions.

Furthermore, MacPherson et al (2004) highlight that RWL, a producer of technical products who had 32 employees when the study was published, faced a similar problem to IT Org in that following sharp sales growth its owners were pulled more into 'day-to-day management activities' (MacPherson et al, 2004: 167). Nevertheless, whilst RWL's owners freed up their time by recruiting three extra managers, such an attempt to fill voids in staffing levels has been problematic for IT Org in that new engineers were hired who were not up-to-standard

and overall it took approximately six months to hire a good engineer. Furthermore, whilst hiring these new managers appears to have helped the two owners of RWL step back from the day-to-day managerial activities, it is interesting that IT Org's owner-manager's struggle to pull away from the day-to-day work of the organization continued at the time of the third interview with him at which point he had hired a new engineer and the staff member on maternity leave had returned to work. This highlights that whilst similar circumstances may arise in different organizations (although admittedly for different reasons in the cases of RWL (sales growth) and IT Org (staff leaving)) it is naive to underplay the importance of the idiosyncratic features of dynamic capabilities. As such, formulaic and prescriptive leadership development interventions to such problems are likely to be less effective than personalised critical leadership development.

It is important to note that the owner-manager of IT Org is not solely dependent on repeatable leadership development (or critical leadership development) to enable him to step back again from the organization, as other avenues to achieve this end can be derived from the interviews with him. As such, it is important to highlight that critical leadership development is only proposed here as one potential avenue amongst many to helping the owner-manager to step back out of the organization once again. Nevertheless, as has been indicated by the discussions above, critical leadership development could be an important micro-foundation of IT Org's dynamic capability to develop new service offerings.

## **Conclusion**

Critical leadership development in micro organizations is an important area of study and yet remains peripheral within mainstream debates on HRD in small firms. Leadership development in micro firms as an area of theoretical and empirical inquiry is vital in advancing our understanding of HRD in micro firms. We have highlighted micro firms have

the potential to enact dynamic capability and have the potential to be generators of innovation, and economic growth.

Our review makes a number of important contributions. First we have illuminated the potential value of critical leadership development as a micro-foundation of dynamic capabilities. Second, the paper elucidates how emotions can be an integral part of dynamic capabilities and illustrates a potential role for power relationships in the enactment of dynamic capabilities. Third, the study has attempted to develop our understanding of the multifaceted forms that critical leadership development may take (in depth, personalised, mentoring) to act as an effective micro-foundation of dynamic capability. As such, this study could provide a first step towards informing HRD policy initiatives aimed at helping owner-managers of SME's to develop their organizations strategically in order to improve competitiveness. Finally, the study offers important insights into owner-manager's critical reflective practises and how they may be able to navigate around emotional and political barriers impeding the enactment of dynamic capabilities in their own organizations.

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