Emotional Capital for Small-Sized Companies
Impact on Change Receptivity

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July 2020

Executive Master in Coaching and Consulting for Change
INSEAD, Fontainebleau

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Acknowledgements

I want to express my gratitude to Elisabeth Florent-Treacy for her ongoing support, valuable inputs, and constant motivation throughout the present thesis’s development. The same applies to Roger Lehman, Erik van de Loo and Michael Shiel for their feedback and fantastic journey of change offered to me during the programme and to Quy Huy, whose theory inspired me to write about emotional capital.

I also thank all interviewees for their willingness to answer my questions and their openness during the various and long conversations we had.

Lastly, my special thanks go to my family, particularly to my wife, Sarah, who endured me and always remained patient, which was not always easy.
Abstract

Emotions are the basis of human social life and thus also influences our daily business life. The article about emotional capabilities and radical change (Huy, 1999) offered new business perspectives and was further developed since. Although the theory was repeatedly confirmed in various other studies, hardly any dealt with small-sized companies. The present study bridges this gap and focuses on needed emotional levers to increase change receptivity when building emotional capital. Due to the idiosyncratic character of small-sized companies with its distinct leadership, it is argued that the initially proposed emotional levers do not adequately ensure an adequate building up of emotional capital. Therefore, it is proposed to add two additional emotional levers, which I term organized resiliency and empowered independence, to reduce resistance to change in small-sized companies.

Keywords: Emotional Capital, Small-Sized Companies, Leadership, Decision-Making, Receptivity to Change, Social Defenses, Learned Helplessness, Empowerment, Resiliency
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Introduction

Emotions have always played a significant role in our lives, and with the publication of the book “The managed heart” (Hochschild, 1983), emotions also found their way into scientific business literature. Since then, focus on emotions in a private and business context has developed and found several practice fields, notably, frameworks for emotional intelligence (Salovey & Mayer, 1990) and emotional capital (Huy, 1999).

The latter introduced an additional and more strategic component to the academic literature by presenting a process model of organizational change and innovation based on collective emotions. In this model, a change dynamics model, highlighting the interplay of change receptivity including, emotion and cognition, mobilization, and learning from change, was introduced and coupled with emotion dynamics integrating emotional states expressed or evoked at an individual as at an organizational level. The importance of emotions and their benefits for companies thus became significantly evident.

Huy’s concept of emotional capability has since evolved. Other relevant insights were added or incorporated to the framework, notably the high importance of middle management (Huy, 2001), the impact of emotional balancing to the organizational continuity (Huy, 2002a) as well as the importance of a well-adapted rhythm of change to safeguard successful change outcomes (Huy & Mintzberg, 2003). Moreover, it was demonstrated that procedural justice or fair process highly contributed to the organization’s emotional intelligence and thus served to build-up emotional capability in companies (Van der Heyden & Huy, 2008). Finally, firm innovativeness concerning emotional capability, as defined by Huy, was empirically analysed and confirmed in a study on 163 Turkish companies (Akgün et al., 2009). Therefore, one can assume that the original idea of building up emotional capital to better navigate through times of radical change may also constitute a strategic or competitive advantage as such, even outside of radical change.

The vast majority of the studies, however, are mostly covering large companies for obvious reasons. Mainly because business functions are well developed and formalised due to their availability of resources like capital and human asset but also because of their size and market impact. Hence, they offer excellent sampling and various other opportunities for analyses and improvement possibilities well seen by professional consultants or academics.

Unfortunately, not many studies are dealing with small-sized companies, although exactly those companies will face significant challenges due to the ongoing digitalisation and
increased business speed, intensifying competition dramatically. Small-sized companies cannot afford costly consultancy or big cultural development departments and often do not have a critical size to counter massive market challenges. According to Eurostat (2020), small-sized companies with up to 50 employees are often seen as the backbone of the economy, representing 98.8% of all companies employing 48.4% of the labour force. In contrast, large companies only represent 0.2%, with 34.9% of the employed workforce. It thus seems appropriate to examine Huy’s emotional capability theory for its applicability to small-sized companies.

Consequently, this thesis focuses on emotional capabilities in small-sized companies, whereas the question is not whether it is possible or not to apply the proposed framework but rather what specific aspects need to be considered. This approach offers a unique understanding of emotional dynamics in small-sized companies that may differ from large ones and will underpin the idiosyncratic character of small-sized companies. Particularly, the impact of those relevant aspects typical for small-sized companies are of special attention and offer also an additional ground for future research. Therefore, the present study widens up the mentioned concept by providing further insights into small-sized companies such as alternative or additional emotional elements and their potential critical impact.

This study’s basis is the emotional capability theory and its emotional dynamic of receptivity to change (Huy, 1999), allowing to better accept a proposed change by linking it to specific behaviours found in small-sized companies. Among the various behavioural aspects of small-sized companies, analyses will be limited to distinctive characteristics, which I assume to be of prime relevance compared to large companies. These aspects will comprise

a) leadership issues,
b) the decision-making process, and
c) selected group dynamic aspects encountered in small groups (Bion, 1961)

as predominant influencing factors for small-sized companies. The literature review will hence focus on the elements mentioned above. In parallel to the literature analysis and based on a single instrumental case study as the primary research method (Creswell & Poth, 2018), semi-structured interviews with different stakeholders of one small-sized company will be conducted, enriched with selected minutes of meetings related to team development initiatives. This procedure allows to continuously identify and deepen emerging key aspects
and clarify them with additional interviews if needed. It also allows ongoing hypothesis testing with involved persons.

The findings of these interviews, together with the insights of existing literature and internal company material, will be condensed and presented. It’s key implication on the emotional dynamic of change receptivity of small-sized companies emphasized. In sum, the following research questions are addressed:

1. How does change receptivity in small-sized companies differ from large ones?
2. Are the proposed emotional dynamics appropriate also for small-sized companies?

It is moreover argued that the distinct company culture and leadership style, typical for small-sized companies, influences decision making disproportionally high, promotes uniformed thinking impacting resources and company structure, and due to a loss of control, may lead to learned or organisationally induced helplessness (Martinko & Gardner, 1982). With the simultaneous appearance of social defences (Menzies-Lyth, 1960), the risk of burnouts increases, particularly in times of radical change. Finally, the impact of decision-making procedures and organizational structures on employees may result in basic assumption behaviour such as dependency (Bion, 1961) as occasionally observed in the present case study.

The thesis will finally close with a summary of findings and suggestions on embracing encountered behaviour by proposing new emotional dynamics, potentially allowing to increase change receptivity of small-sized companies. It is proposed to add two distinct emotional levers to the theory, defined as organised resiliency and empowered independence. Based on these findings, limitations of the study and propositions for future research are set out as well as some conclusions and their implication.
Theoretical Background and Literature Review

The subsequent literature review attempts to select and to discuss the most relevant literature to conduce this thesis. The research question, what impact Leadership, decision-making, and group dynamics of small-sized companies have on change receptivity, defines four distinct key areas of exploration. Firstly, the theory of emotional capability or emotional capital, initiated by Huy in his seminal article of 1999. Secondly, the leadership behaviour of owners/managers in small-sized companies and their leverage on the organisation. Thirdly, the usual decision-making process encountered in small-sized companies often influenced by the owner/manager and finally selected group dynamic aspects typical for small groups.

The literature review aims not primarily to identify what is already known and where gaps do persist but rather to lay a sound theoretical background on which further reflections may be developed. Nonetheless, a short summary of existing gaps and some examples of exciting but missing aspects shall be given at the end of each subchapter.

Emotional Capabilities/Emotional Capital

Both words have their origins from Latin, whereby emotion is derived from “emotus,” best translated with “to move out” and underscores an acting purpose, capital in contrast, from “capitalis,” which means “on the head” and suggests a particularly relevant asset. To deepen our understanding of emotions, the following quotation is highly useful:

If one wants to understand whole persons and how they function in nature, what better place to begin than with a consideration of how the persons are equipped to handle the challenges, opportunities, and problems of living? This is, indeed, what emotions are about (Craig & Lazarus, 1990, p. 632).

After the seminal book “The managed heart” (Hochschild, 1983), where emotional labour in the service of organisations was firstly academically investigated, several researchers started to add other crucial new features, amongst them the theory of emotional capabilities related to radical change (Huy, 1999). With radical change or second-order change, we understand a conscious modification of present organisational schemata or frameworks in a particular direction, whereas a first-order or incremental change stays consistent with an already-present schema (Bartunek & Moch, 1987).

In his pioneering article, Huy showed how the attributes of emotional intelligence (Salovey & Mayer, 1990) on an individual level and the emotional capabilities on an
organisational level, respectively, could facilitate change and thus social adaption (learning). To link those levels, he introduced a change dynamic model (change dynamics) connecting a proposed radical change with personal adaptation and change, and an emotional dynamic model (emotional dynamics) connecting emotional states or behaviour with emotional capabilities. The former contained three interrelated elements, namely receptivity (to a proposed change), mobilisation (as a subsequent action), and learning (from change outcome). Here receptivity refers to an organisation’s readiness to react to a proposed change and describes the ability to apply suitable and assimilated organisational practices to meet threats and opportunities.

Furthermore, Huy proposed six emotional dynamics expressed or evoked through emotional states or processes acting as antecedents. Whereas experiencing through empathy and reconciliation through sympathy would positively influence receptivity, identification through love, in contrast, was suggested to have a negative impact. This is particularly important as receptivity is defined as a critical aspect of this thesis. Finally, encouragement through hope was proposed to increase mobilisation, whereas playfulness through fun, displaying freedom through authenticity, and identification through love was said to increase learning. At that stage, it was left to future empirical research which of the six suggested emotional dynamics would be preeminent in which contexts.

Another supporting study found that the enactment of humanistic values as a subset of moral values profoundly influences the success of a planned change (Huy, 2000). In that study, it is argued that five values, namely representative democracy, diversity, humility, integrity, and justice, seem essential to conduct second-order change. In contrast, integrity, defined as consistency between rhetoric and action, is found particularly enforcing the emotion dynamic of authenticity. He further noted that the feeling of empowerment enables collective mobilisation and learning from changing and thus contributes to these change dynamics. In summary, it was suggested that enacting those humanistic values increases the likelihood of change adoption and hence enhances receptivity as a change dynamic.

Antonacopoulou and Gabriel (2001), on the other hand, argued that emotions and learning in a change context are dynamic concepts and are interdependent on both an individual and organizational level. They demonstrated that emotions are also learned experiences and that learning is an emotional experience, which may stimulate emotions of hope, love, and solidarity on the positive side but could also lead to resistance and denial as
an unconscious process. Therefore, adequate management of emotions seems advantageous, which was congruously discussed with the concept of emotional balancing applied by change agents (Huy, 2002a) and the emotional filtering of change recipients, respectively (Huy, 2002b). In this context, it appears that the relationship between change agents, and recipients is of vital importance and thus moves middle management in a key role supporting any change initiative (Huy, 2001). The interplay between emotion management using emotional capabilities and balancing emotions, applied by middle managers acting as change agents was therefore found critical for sustained change (Huy, 2005b).

In a study on 163 Turkish companies, Huy’s theory (1999) was empirically tested and confirmed a positive correlation between emotional dynamics and firm innovativeness (Akgün et al., 2009). It also revealed that the impact of emotional capabilities was interrelated with environmental uncertainty, particularly to the impact of the emotional dynamic of encouragement displayed by hope the higher environmental uncertainty was.

The investigations were also expanded on contrasting emotions, such as dissatisfaction with work performance but feeling safe in work interactions implying an aspirational discontent as an additional emotional lever, or fearing organizational decline and pride having previously contributed to the organizational success to help to reduce the cost of change (Huy, 2008). These examples are supposed to have a positive effect on the change dynamic of receptivity. However, they also insinuate a sequencing of emotional management over a specific period of time as a precondition for organizational learning. The effective enactment of emotional capabilities thus may be improved when applied chronologically (Huy, 2005a). Its sound application throughout three psychological stages (Bridges, 1986), including an ending (of the past), a neutral zone (in search of a new direction), and a new beginning (new direction found and seem to be working), suggests hence to see experiencing (expressing empathy), reconciliation (expressing sympathy) and identification (expressing attachment or loyalty) as recurring learning outcome over time and thus combined as deserved pride (Huy & Scheef, 2019).

Figure 1 summarizes the development of the emotional capital theory today and states the interaction of emotional dynamics characterized by five emotional levers and the three stages of change dynamics.
Others have emphasized that procedural justice or fair process can be interpreted as an emotionally intelligent organizational routine, especially useful for family businesses, and how fair process is shaping decision making and thus supports building up emotional capabilities (Van der Heyden & Huy, 2008). For example, fair process enables transparency, a catalyst for authenticity, or promotes speaking up, which in turn nurtures engagement, an operational way of evidencing sympathy and generating empathy. A similar correlation was noted in a case where organizations introduced social media tools for internal communication (Huy & Shiplov, 2012). In that study, executives using social media to build emotional capital within their employees benefitted from higher employee motivation and improved collaboration. They had focused on positive feelings of authenticity, pride, and attachment among the employees, whereas those executives concentrating on functionalities and neglecting to build on emotional capital had seen the ease of communication declined.

Until today various other cases have supported the strategic advantage of emotional capital in a change context, notably the successful Nissan turnaround (Huy, 2010), Nokia’s smartphone battle (Vuori & Huy, 2016) or as initial change support almost turned into mutiny (Huy et al., 2014).

Although recent research has turned to neighbor topics such as the impact of masking negative emotions (Vuori et al., 2018) or emotion regulation of managers influencing resource mobilization (Huy & Zott, 2019), the field of future research still remains vast. Many additional research directions integrating emotions in management theories were identified and presented on the occasion of a special topic forum (Ashkanasy et al., 2017). However,
nearly no studies, surveys, or analyses are dealing with emotional capabilities distinctive and relevant for small-sized companies, although they represent the economic backbone of most of our countries. Almost as little is found concerning industries’ possible differences with different work content, ranging from intellectually demanding to regular work activities like craftsmanship.

Today, however, a broad collection of relevant aspects concerning emotional capital can be drawn upon. In a nutshell, they include (a) the different types and roles of emotions in a change context and (b) their timely impact (sequencing), (c) the interplay of emotional states and emotional capabilities, (d) the balancing and filtering aspects of emotions together with (e) the importance of middle management and finally (f) the supporting elements such as fair process for example. This review and its summary are though not conclusive but meant to be relevant for this thesis.

**Leadership and Small-Sized Companies**

What leadership is about has always been a constant debate and research area with great attraction for academics, consultants, and practitioners. First written reflections about leadership can be traced back to the 6th century B.C. and Sun Tzu, a Chinese general, military strategist, and philosopher, who wrote about “the art of war” (Giles, 1910). Later, the “great man” theory served as the foundation for the trait approach to leadership in the early 20th century, distinguishing leaders from non-leaders based on individual attributes. Several researchers started then to concentrate more on the behaviors of successful leaders.

Kurt Lewin was one of the first to study organizational development (OD) and based on his research, three different management styles in work environments were distinguished and defined as authoritarian, democratic, or laissez-faire (Lewin et al., 1939). This behavioral approach was further developed by concentrating on two large scale efforts, a person-centered dimension and production or task-oriented leadership behavior. The managerial grid training (Blake & Mouton, 1964) emphasized five different management styles alongside the leaders’ concern for people and alongside the goal or task achievement of which the team-oriented style integrating both aspects was supposed to be the most effective. The proposed framework was yet only partially supported and reported to be a poor predictor for managerial effectiveness or conflict resolution method (Bernardin & Alvares, 1971). Because situational conditions were not considered so far, scholars turned to contingency theories integrating information about the situation in which leaders worked.
Such theory, the so-called "Contingency Model" was presented by Fiedler, proposing that the performance of interacting groups is contingent upon the interaction of leadership styles in the relation of the leader’s situation, composed of the task structure, the leader position power, and the leader-member position (Fiedler, 1965). Another situational theory argued that the most effective leadership style is contingent on the present situation and thus selects the appropriate leadership style for decision-making (Vroom & Yetton, 1973). The framework identified an autocratic style using either own information or collected information from followers, a consultative approach collecting suggestions from followers individually or commonly as a group but making decisions alone, and finally, group-based decision-making. Substantial support for the model and its components were obtained in the course of an empirical evaluation (Vroom & Jago, 1978) but also questioned since the appropriate choice of leadership style was based on a self-reported assessment of attributes and did not consider any necessary skill set (Field, 1979).

The model was then further developed by defining five distinctive decision-making processes resulting in leadership styles labeled as Decide (alone), Consult Individually, Consult Group (both participative), Facilitate (democratic), and Delegate (enabling) on a 10-point scale (Vroom, 2000). A similar approach, but focusing more on situational moderators, is known as the Path-Goal Theory (House, 1971), based on the expectancy theory of motivation resulting in higher engagement. His theory was further developed, and leadership behavior as independent variables specified, including directive, supportive, participative, and achievement-oriented behaviors (House & Mitchell, 1974).

Integrating subordinates’ maturity level into existing theories, Hershey and Blanchard (1969) then developed a life cycle theory of leadership known as situational leadership. According to this theory, it was proposed to adapt leadership behavior to the follower’s maturity level and moving through phases of telling, selling, participating, and delegating. The empirical evidence was, however, repeatedly contested.

Whereas some concentrated on the social exchange perspective and the transactional nature of groups, thus shifting attention to the leader-member exchange relationship (known as LMX theory), also new leadership perspectives such as implicit leadership theory emerged. They posited that followers have preconceived notions, and based on them, would perceive someone as a leader displaying those notions. In light of these developments, James Burns (1978) wrote a book about leadership, conceptualizing transactional and transformational
leadership. Based on these reflections, Bass (1985) developed his transformational leadership theory, characterized by trust and respect for the leader and motivating followers to outperform expectations set in them. Transactional leaders, in contrast, would primarily concentrate on followers’ needs to fulfill task completion and monitoring, merely based on rational and economic principles. Thus, transformational leadership emphasizes emotional components such as affect and values and includes factors like charisma, individualized consideration, and intellectual stimulation. The impact of transformational leadership also has a duplicating effect on lower hierarchical levels and is described as falling dominoes (Bass et al., 1987). Similar results were reported in an experimental study with 450 scholars of a business school (Deluga, 1990). Then again, transformational leadership is suggested to highly relate to performance only under perceived environmental uncertainty (Waldman et al., 2001) but may also lower frustration and increase optimism on subordinates, which in turn indirectly influences their performance (McColl-Kennedy & Anderson, 2002).

The research so far has shown that not one specific leadership or leadership style would increase the effectiveness or performance of companies alone but rather different ones depending on environmental conditions, skill levels of subordinates, and cultural aspects (Schein, 1992). With the ongoing globalization, digitalization, and increased information deployment, more emphasis on learning and adaption seems required. The theory of leadership complexity (CLT) has taken a step in that direction, connecting adaptive, enabling, and administrative leadership to an overarching framework (Uhl-Bien et al., 2007). Many other and different but promising leadership theories have emerged since (Hernandez et al., 2011) but were not considered of particular relevance for this thesis.

The vast majority of articles, studies, and investigations are based on large companies, yet only a few are dealing with small-sized companies. A study in the U.K., including 6000 organizations, 457 being small-sized companies, revealed that owners/managers tend to use highly personalized and informal management style, making decisions mainly alone (Matlay, 1999) and seem to confirm a rather autocratic and directive leadership style. Another study supports this assumption carried out, where transactional leadership is a predominant management style, although it rather negatively affected performance, whereas the transformational leadership style had a positive effect (Pedraja-Rejas et al., 2006). A presumed benefit of small-sized companies is said to be the development and implementation of entrepreneurial orientation, which is reported to relate to performance positively and is
significantly supported by transformational leadership style (Chung-Wen, 2008). They, therefore, argue that transformational leadership is the best predictor for business performance. It was then said that transformational leadership is also strengthening affective organizational commitment (or identification in terms of an emotional dynamic), but only in service-oriented small-sized companies. However, for manufacturing-oriented ones, it only had a positive effect in combination with a directive leadership style (Mesu et al., 2015). Directive and transactional leadership though, appears to be the preferred management style of small business executives, which may be related to their values and experiences. In that context, it is notable to mention the upper echelons theory, which exactly proposes such premises, namely that personalities, experiences, and values highly influence their interpretations and acting (Hambrick & Mason, 1984; Hambrick, 2007).

This brief literature review revealed a multitude of leadership theories, of which most rely on behavioral and cognitive mechanisms concerning the leader, the context and, to some extent, to the followers. It is interesting to note that most research is based on theories from years ago, which sparsely consider today’s business’s complex conditions, except perhaps the leadership complexity theory (CLT), including adaptive leadership. A similar observation applies to small-sized companies, where contingency theories seem to prevail. We may note that no specific leadership theory for small-sized companies has yet emerged. However, the impact of the owner/manager on the organization’s behavior is far more relevant than in large companies, emphasizing his or her behavior, values, and experience.

**Decision-Making in Small-Sized Companies**

Based on underlying cognitive mechanisms, research has mainly focused on prescriptive theories providing guidance on how to combine beliefs and preferences to make a decision (Pitz & Sachs, 1984). Usually, this implies a sequence of actions comprising data gathering and analysis, development of alternatives, and a selection process to finally make the decision. However, most literature deals with strategic decision-making, where the outcome of the decision is essential and often critically affects organizational health and survival (Eisenhardt & Zbaracki, 1992). Strategic decisions in organizations may be organized along with their individual goal congruency and extent of coordinative efficiency, classifying them as unitary actor (rational) models, organizational, political, and contextual models (Schoemaker, 1993). Most organizational and contextual models are preferably based on cognitive mechanisms such as linking strategic gap analysis and managerial decision-making
processes (Harrison, 1996) with a rather normative character. Others again concentrate more on practical guidance for leaders in multiple contexts from simple to chaotic circumstances (Snowden & Boone, 2007) or particular focus on the practice of good judgment seen as a process unfolding in three distinct phases with its challenges and opportunities (Tichy & Bennis, 2007). They also argue that good leaders shall first sense and identify the issue, set clear parameters, provide context, and finally mobilize and align key stakeholders before making the call (or decision). Here we also notice the integration of proposed leadership behavior in the absence of a strategic character. Similarly, Vroom’s model of time and development-driven decision-making is proposing different decision-making styles in distinct situations. (Vroom, 2003).

The latter aspects are of particular interest since the aim is not to investigate how and when an optimal decision is taken but instead what impact decision-making has on the followership and, ultimately, its influence on receptivity to change. Explanation as one aspect of procedural justice or fair process (Kim & Mauborgne, 1997), for instance, is shaping decision-making, and it was found that entrepreneurs from small firms are less comprehensive in their decision behavior than professional managers of large companies (Smith et al., 1988). On the other hand, small-sized companies usually do not have developed decision-making procedures, and we often notice opportunistic information gathering and analysis, although decisions tend to be more uncertain and complex compared to large firms.

It might explain why entrepreneurs are more susceptible to simplifying biases and heuristics, such as overconfidence and representativeness (Busenitz & Barney, 1997). Managerial roles in small firms are often concentrated on one person influencing the decision process based on their knowledge, experience, and personality. Not surprisingly, it was found that information gathering was rather basic and simplistic, ideas mainly came from the owner/manager, alternatives were poorly developed, and that the quality of each process activity heavily depended on the firm’s resources and competencies of the owner/manager (Hang & Wang, 2012).

A similar observation was made in a study in the UK leisure industry. The result showed that owners/managers engage primarily in adaptive decision-making constrained by limited time and the desire to retain control (Byers & Slack, 2001). Thus, active team involvement in decision-making seems rather unusual in small firms, whereas transactional leadership style is supposed to be quite common.
These observations contrast to what most scientific literature recommend since transactional leadership style, in contrast to transformational, is negatively related to consensus decision making and team effectiveness, which is likely to increase team members’ commitment to the organization (Flood et al., 2000). Finally, it is argued that leadership, decision-making and organizational justice are intimately interlinked and that certain leadership styles are associated with distinct decision-making styles (Tatum et al., 2003). Whereas a more restrictive decision-making style, in combination with structural justice, promotes a transactional leadership style, a comprehensive decision-making style in conjunction with social justice, in contrast, is favoring a transformational leadership style. Both combinations are said to build strong relationships with followership and may be used in a different context by the same leader.

Research has so far mainly focused on the decision-making logic in different contexts, but only little was dedicated to why specific decisions are taken. In small-sized companies, however, decision making is often linked to the owner/manager and his or her leadership style influencing decisions disproportionally compared to large firms.

**Selected Small Group Dynamics**

Group dynamics in small-sized companies are of particular interest, especially during a decision-making process considering the owner/manager’s influence on the management team. This social interaction is best described as human relation in small, face-to-face groups (Bales, 1950) typically found in small firms. The underlying psychodynamic aspects were thereby first described by Freud (1921) and subsequently advanced by many others. Whereas Freud mostly concentrated on the *intrapersonal* perspective and studied individual behavior, group behavior instead is interested in *interpersonal* and *supra-personal* aspects, viewing the group as an organism with its dynamics. In contrast, the *inter-group* perspective, is more systemic and describes relationships between groups, organizations, or even social systems. It seems thus appropriate to briefly discuss some group mentalities based on Bion’s experiences in groups (Bion, 1961) and some selected defense mechanisms relevant for this thesis.

Bion described group life characteristics as a *work group*, where all participants meet to engage with the primary task in a highly cognitive, rational, and mature manner, not allowing any emotional interference to jeopardize effective task performance possibly. However, this rather idealized and theoretical definition of a group behavior would simultaneously compete with the so-called *basic assumption group* where participants would
collectively behave in a temporary psychotic and regressive manner and be used for emotional gratification and tension release (Schaffer & Galinsky, 1974). The group being in that state of emotional regression, would unconsciously act as if they believe certain things to be real, which obviously are not true. According to Bion (1961), three basic assumptions may engender groups to display distinct emotional states:

- **Dependency (baD):** The desire to be protected and nourished by a leader with the idealization of the latter and a consequential behavior of being immature, knowing nothing, and having nothing to contribute (deskilling of group members) characterized by feelings of frustration, helplessness, powerlessness, and depression. It manifests the group member’s anxiety and insecurity and the need for structure and guidance.

- **Pairing (baP):** Described as an intensified form of dependency, pairing occurs when the group behaves as if two members pair off, creating an idea or a person as a new, yet unborn savior characterized by opposite feelings of hatred, destructiveness, or despair. Decisions are then not taken or typically remain vague, leaving the group with a sense of disappointment and failure superseded by the hope that the next meeting will be better.

- **Fight/flight (baF):** An irrational concern of survival based on group’s fantasies assuming an enemy or a danger to either fight against or flee for self-preservation. It often results in scapegoating its members and is characterized by feelings of anger, suspicion, or fear.

Later two additional basic assumptions were added, one by Pierre Turquet (1974) known as we-ness, where group members surrender themselves for a powerful union with omnipotent force characterized by feelings of well-being and wholeness, and inclusion. A second one termed me-ness or one-ness (Lawrence et al., 1997), seen as the opposite of we-ness, characterized by overriding anxiety of the individual to get lost in the Group and hence leads to a denial of the Group to avoid destructive group mechanism.

Defenses against anxieties were also hypothesized as a social phenomenon of groups against the painful and often unsupportable emotions triggered by organizational tasks and dynamics (Jaques, 1955). They were broadly explored in a study on the nursing system of a hospital (Menzies-Lyth, 1960). The unconscious and impersonal parts of organizations facilitating the work, such as structures, policies, methods of working, or decision-making
patterns, would also serve as defenses against the anxiety of carrying out the organization’s primary task. They help people to manage their anxieties and do exist independently of their members. Using these defenses, people also retreat from role, task, and organizational boundaries, characterized by depersonalized work relationships and distorted group capacity to accomplish its primary task (Hirschhorn, 1988). This phenomenon, known as a social defense, is particularly relevant in a change context as it may prevent organizational learning based on organizational awareness (Bain, 1998), but needed for sustainable change. In these situations, where the task becomes to choose the task, the framework of primary risk (Hirschhorn, 1999) explains how organizations behave. Another useful approach was proposed with the BART system of group and organizational analysis (Green & Molenkamp, 2005).

Social defenses as a theory for micro-systems or groups and relevant for this thesis have developed into broader applications by linking psychodynamic aspects with large systems or social communities, as proposed by the inter-subjective theory (Long, 2006) for instance. The various challenges due to the ongoing digitalization and increased knowledge-based work of contemporary organizations will, however, require continuous change and adaptation that will modify social defenses systems and hence need new ways of thinking (Krantz, 2010).
Methodology

The research question and thesis purpose were not so much whether the concept of emotional capital is also applicable for small-sized companies or not (I am sure it is) but rather what specific or alternative aspects had to be considered when building up emotional capital. More precisely, this thesis aimed to analyse these aspects’ impact, mainly on the receptivity to change as one of three change dynamics besides mobilisation and learning. The logic is that the owner/manager’s influence is disproportionally strong in small-sized companies compared to large companies and thus may profoundly impact change receptivity. The in-depth literature review on emotional capital theory, which has developed over time, revealed that five emotional levers or dynamics would highly influence the change dynamics, whereas three of them directly impact change receptivity.

Firstly, authenticity is strongly related to leadership and conveys respect, trust, knowledge, and transparency, typical for sound decision-making based on fair process. Secondly, aspirational discontent described as a feeling of dissatisfaction that the organisation could have done better, mostly nurtured by the top and middle management, and is again related to leadership and openness. Finally, deserved pride, which embraces engagement as an operational way of evidencing sympathy, a precursor of empathy but also attachment as a form of identification. Therefore, deserved pride, implies caring for people, honesty, fairness, respect, and the experience of learning. This culture is again linked to leadership and decision-making but may also trigger social defences and dependencies.

Then again, it was seen to be critical to sequence the emotional management, a task that would predominantly be the responsibility of top management and change agents. Balancing and filtering emotions was said to be the main duty of middle management, but since small-sized companies often work in the absence of designated middle management, it falls again under the responsibility of top management. This underpins the importance of top management and its leadership. Consequentially the focus is set on leadership behaviour, decision-making, and selected group dynamic aspects.

The basic idea of this thesis was neither to develop a theory nor to look for under-researched areas but to test the emotional capital theory for small-sized companies based on the mentioned aspects above and at the same time to prepare the ground for future large-scale research. Therefore, it can be seen as preparatory work for qualitative research or the first part of a mixed method. In that context, a qualitative approach seemed appropriate using a single
instrumental case study (Stake, 2005) as a supportive element. In a single instrumental case study, the researcher focuses on an issue and then selects a bounded case to illustrate this issue (Creswell & Poth, 2018, p. 98). Integrating additional literature research with ongoing thematic analyses (Riessman, 2008) allowed me also to use interview data, literature insights and personal reflections simultaneously to let common and recurring themes emerge. It offered me a more profound knowledge of emerging phenomenological elements and possible confirmations or disconfirmations of previously assumed hypotheses.

While analysing the gathered data, I discovered some new and unexpected phenomena, maybe idiosyncratic for the present case, however highly relevant when building up emotional capital in small-sized companies. I detected signs of organisational helplessness and asserted some cases of burnouts. These new insights also required additional literature research, initially not considered, and had to be integrated into the overall analysis. This led to a parallel and interrelated conclusion finding but was found to fit well the instrumental case study method. It also allowed me to broaden up tentative research topics for the future. The chosen procedure, as described above, is summarized in figure 2 below.

**Figure 2**

*Methodological Approach Integrating a Single Instrumental Case Study*
Research Setting

In searching for a suitable small-sized company serving my case, I could successfully rely on a small-sized company I had previously consulted and rendered my search luckily unnecessary. In fact, the owner allowed me to interview the stakeholders I wished, participate in a management meeting and a workshop, and analyse selected company documents. For confidentiality reasons, I shall neither reveal the company’s name or names of interviewed persons nor provide any information about the industry the company works in.

The Company (Case)

The company is a typical Western European company employing roughly 60 people, founded in the ‘80s and still or mainly managed by the owner. As a typical start-up company, they had started with a few core people growing over time and having had their success peak some ten years ago with 80 employees. Since then, the business had stagnated, competition increased, and the former competitive advantage based on knowhow and academic excellence was partially seen eroded. The owner’s wish to gradually step back from managing the company and concentrating more on research topics, led to the appointment of a new CEO some five years ago. He had been with the company already for several years, and although he showed excellent technical knowledge and fairly good business acumen, his leadership was seen rather weak according to the owner. Since the company’s financial situation did not improve substantially during that time, the owner thus decided to take back the lead, giving the former CEO another but leading role as Division Manager with sales responsibilities.

The company works in the infrastructure industry and offers professional technical services mainly as standardised service products. They also engage in technical education and occasional academic research. The organisation can be divided more or less into two different groups, each having several departments. One group mostly concentrates on technical advisory work, project management, and sales with high technical and academic skills, wherein most management members are found. The other group includes people preparing standardised services, logistics for delivery, and handicraft work with lower skills. The owner, a well-known national expert in his field of expertise, has represented the company in many technical committees and associations, endorsing its reputation.

The small board of directors is mainly staffed with close friends and family members but all highly skilled and with academic background. The board has recently appointed a new
managing director coming from outside to stabilise and then grow the business and allow the owner to retire from operational management.

**Company Documents and Meetings**

My interest in company documents was limited to relevant information, such as organisational charts understanding responsibilities and boundaries, minutes of meetings stating how and why decisions were made, and other protocols dealing with specific aspects of organisational behaviour. To get a better feeling and potentially grasp the atmosphere in terms of shadowing, I found it useful to participate in a management board meeting and a team development meeting. My introduction was thus well prepared in advance, and people were informed about the purpose, which allowed relaxed and stress-free meeting participation for both sides.

**Interviews with Relevant Stakeholders**

To maintain a sense of neutrality and allow different perspectives to emerge, various stakeholders of the company, including family members, were interviewed. Whenever possible interviews were carried out face-to-face and audio recorded as far as allowed, but some had to be conducted via video conferencing. The selection of the interview partner was based on relevant management interaction to change receptivity and included:

- all members of the board of directors (4)
- all members of the management board (5)
- all department heads (4)
- some family members (2)

Being aware that the present sample size may not always allow an ultimate evaluation, I found the number of interviews nevertheless sufficient to grasp the main issues relevant to the study. However, to allow further information to surface, I tried to use myself as an instrument as part of socio-analytic interviewing (Long, & Harding, 2018).
Data Gathering and Analysis

Apart from the initial literature review, data was gathered from four distinctive sources:

- Study of relevant company documents (company characteristics)
- Interviews with relevant stakeholders
- Personal notes from management meetings and team development workshop
- Subsequent literature research based on emerged group dynamics

The substantial amount of data from multiple sources was condensed to the most relevant information and simultaneously analysed whenever it seemed useful. Instead of coding interview transcripts and personal notes, I contextualised and mentalized the gathered data into thematic clusters to make more sense of it. This approach helped me to explore patterns, similarities, and the rationale behind the narratives supported by the rather tight discussion leading during the semi-structured interviews.

Company Characteristics

The reviewed documents revealed a grown organisational structure over time with a technical or knowhow-oriented structure in the absence of distinct customer orientation. It seemed rather complicated and difficult to interpret how the company actually works, showing a high amount of different organisational groups and subgroups. A work delimitation with corresponding responsibilities appeared thus challenging and possibly impacted internal boundaries. The lack of decent financial controlling elements such as investment procedures, project management tools, or operational cost systems evidences a more informal organisation than a well-structured enterprise. It might lead to an increased dependency on leadership, management, and decision making, however not unusual for small-sized firms.

Interviews

Semi-structured interviews were conducted using an identical set of questions but allowing to elaborate on essential issues when deemed appropriate. These questions were organized around cultural and contextual aspects of the organization, the manager's and company's leadership behaviour, decision-making, and transparency. The introduction question about how strong the owner had influenced the company revealed a very dominant but also patronage leadership. Typical statements were:
“His (the owner’s) influence was powerful, and without him nothing happened. The organisational structure was his baby and has yet not developed much. However, his readiness to adapt or change things was rather low; he always argued that it had always worked so far and will do in the future also.”

“His influence was so strong that the person succeeding the owner as CEO had a difficult start and was literally unable to change things.”

“He always knew what we wanted, he gave clear instructions, but everybody could discuss with him, and he always looked for alternative solutions; however, decisions were taken by him alone.”

“He primarily focused on technical innovation, not on process optimization, and wanted to understand every little detail but was very proud of his achievements. He was not a classical leader but rather an expert leading by technical competence. Financial transparency has never been a superior topic.”

Talking to family members and close friends, I felt that their pride sometimes tended to over-idealise his achievements, focusing primarily on positive attributes and neglecting potentially ambiguous elements.

**Leadership Issues**

The owner's leadership style was reported to be patriarchal, but interestingly family members and board members saw him leading more cooperatively, whereas the management team perceived his leadership more authoritarian. A similar observation was made on the management team's leadership. Family and board members perceived their style as more charitable and sometimes as laisser-faire than the management team's self-perception described as more delegative and consultative. The first-hand experience thus differed from the reported one emphasizing an interpretative and individual perception of leadership.

Nevertheless, it was noticed that the company's typical leadership style was generally more employee and relationship-oriented rather than task and fact-based. Reports about the management team's leadership indicated an even higher employee and relationship-oriented style than displayed by the owner. Perhaps the management team had adopted the owner's leadership style, set as an example over time. However, these statements are to be seen in a rather professional than an organizational context as the following comments suggest:
“He (the owner) led by example and knowhow, rather patronal though, also allowed questions but struggled to accept majority decisions against him. The personnel management, however, was not his; it gave him trouble.”

“He was old school, patronal and authoritarian but softened the last years. He was the technical messiah for the department leaders, as the department heads were for the employees.”

“To me, his leadership style was not always clear, but he often wanted to assert his opinion, or then he delayed certain decisions, and we had to wait for him.”

In contrast to the owner, the management team's leadership was reported to be rather weak and hesitant. Some even told that “leadership was quite collegial and in need of harmony characterized by not getting on anyone's feet...decisions were changed pretending to cooperate, but it did not really happen.” This might also explain why conflicts, in general, were not tackled but rather “sat out.” It happened that the whole organization, including the owner, often struggled to deal with latent conflicts as illustrated by subsequent comments:

“He (the owner) often wants to solve all problems alone and only accepts help when he is at a loss. He has a good heart and a philanthropic streak always giving a second chance to the people, but sometimes he also avoids resolving conflicts or brings it up too late, and opinions had already formed.”

“Previously, we have asked the owner, but today the management rather looks away instead of solving a problem or delegating it to the top of the house. They do not want harmony to be affected and are delaying decisions, but it is unclear who is in charge.”

When asked about how the organization would deal with underperforming people, similar comments were given. It seemed that a recurring excuse was more readily accepted than splitting up with employees, as long as technical knowhow was not affected. On the other hand, taking responsibility appeared not to be an issue since it was generally well acknowledged on all levels.

**Decision-Making and Transparency**

According to various feedbacks and comments, decisions were primarily taken by the owner mostly alone, but he integrated other parties when he found appropriate. These parties included the board of directors on critical strategic decisions, if needed, the management board on important operational decisions when founding useful but mostly family members as
sort of sounding board. In most cases, however, it was reported that decisions were already made beforehand, and only a formal affirmation was requested. Others said that management did not oppose his decision due to his authority as a company founder and his technical competence. Then again, it was stated that often no real recommendations were proposed by the management team but also that clear guideline lacked or remained vague. A transparent decision process, allowing a critical discussion and review, and an adequate onboarding of involved persons could not be ascertained. Especially transparent financial information was criticized not to be sufficiently disclosed, and several employees reported to be unsure or did not dare to ask. It was even said that transparency was hardly possible and sometimes not desirable. In the last years, self-reliance and autonomy appeared to have declined and seemed to have made way for indifference.

**Cultural and Contextual Aspects**

The example given by the owner over time and adopted by the organization was that success was grounded on hard and honest work and not giving up and always looking for a solution. Hard work and continuous technical training were mentioned many times when talking about the organization's culture, but also resilience, authenticity, and generosity were named to be the owner's attribute and have become second nature to the organization. Again, a certain hands-on mentality was felt throughout the company, which might explain why job descriptions and procedures were only documented in the last few years. End years talk with employees, for example, were literally all conducted by the owner before the new CEO had started. A quite informal organization probably shaped to the owner's need seemed to have predominated and could have been the reason for the given statement that "the people had learned not to decide and to operate without distinctive directives as long as it worked."

This rather informal organization, driven by technical excellence, had worked well under the owner's lead and during times of growth. However, a possible downside was that the active empowerment of people was difficult to reach due to this thriving and robust culture of single leadership. When things started to change, and the competition got stronger, people felt more and more overburdened, which might have led to increased employee turnover and, in some cases, even to burnouts.

**Meeting Observations**

During a team development workshop, the management team was asked to reflect on themselves and compare its identity to high-performing teams, evaluate the gaps, and reflect
on the staff perspective. To manoeuvre them out of their comfort zone, they were told to prepare their key findings, however, without the owner and the CEO and to present those to the next hierarchical level soon after. It happened that they struggled to organize themselves, hardly anybody was prepared to take the lead, and they did not know what to do. It seemed that helplessness had arisen. A similar observation was noted during a management meeting where everybody waited for the CEO to say something to give orders and to distribute tasks. I somehow had the feeling that the management had learned to be passive and to disconnect from active participation in solution providing or thinking along.

**Learned Helplessness and Burnout**

Today, burnout is a frequent reaction to job stress, induced by an unpredictable work environment that causes employees to feel helpless and to withdraw. This maladaptive behaviour, also known as learned helplessness, influences performance and is often inadvertently generated by organizational characteristics, such as unreachable goals, role ambiguities, or particular leadership styles, shaping employees unable to demonstrate mature behaviour and active participation even when desired. According to Martinko and Gardner (1982), it depends more on how people process their information that may or may not lead to organisationally induced helplessness (OIH). Based on social learning, they propose a circular model of OIH where people exposed to an environment with past success/failure experience make causal attributions for performance moderated by individual differences based on internal/external control and stable/unstable conditions. Depending on the attribution, either affective reactions or expectancy shifts lead to specific behaviour and consequences, which in turn re-affects the environment and past outcome history. For example, if a person attributes poor performance to his lack of ability (being stable over time) or task difficulty (being out of personal control), the employee will likely behave in a maladaptive manner.

In a large-scale study, a positive correlation between OIH and lack of autonomy was found (Ashforth, 1990) and seemed to support the described model as well as a study on salespeople (Boichuk et al., 2014). Another study revealed that people who did not perceive their actions being dependent on the outcome (out of control) showed a higher degree of learned helplessness (Silvet, 2013), leading to lower job satisfaction and willingness to work for the company in the future. If the reasons for changes were estimated to come from external factors, people instead showed a low degree of helplessness. In summary, we may state that people who believe no longer to control factors affecting their efficacy are seen to be
at risk for learned helplessness and burnout. The latter is an affective and physical reaction to a work situation with chronic, overwhelming demands and contributes to exhaustion, inefficacy, and cynicism (Maslach et al., 2001). Conditions favouring burnout are experienced workload and time pressure, role conflicts and ambiguity, as well as lack of social support, but also lack of feedback, little participation in decision-making, or lack of autonomy are reported to positively correlate with burnout.Interestingly emotional requirements to be empathic and display or suppress emotions at work are likewise found to increase burnout risks.

To reducing burnout risk, it is advised to develop staff and management, clarify job and role profiles, enable a transparent problem-solving process, and generate a joint mission statement with goals. Apparently, this has mostly not taken place in the present case.
Findings and Discussion

The variety of elements, aspects, and issues I was able to collect, are now discussed more in detail by focusing on the most relevant topics divided into five thematic clusters. These five emerged clusters include values and beliefs concentrating on cultural aspects, leadership issues covering managerial aspects, resources, and capabilities integrating skills and abilities of the organization as well as processes and procedures highlighting how the organization actually works, and finally, organizational system explaining how the different activities are structured and managed. This approach integrates the logic of group and organizational analyses known as the BART system (Green & Molenkamp, 2005) and also follows the widely recognized rule "structure follows process follows strategy," initially presented by Chandler (1962) and further developed, for example, as the 7-S model (Waterman et al., 1980).

In fact, I argue that values and beliefs do impact leadership behaviour, which in turn influences the resources and their selection. In return, resources decide on the processes put in place, which define the organizational structure meeting best the requirements. Of course, reciprocal relationships are also quite common, but all five aspects may also lead to maladaptive behaviour or immunity to change when not properly addressed. This is precisely where the emotional capital theory proposes three different emotional levers, namely deserved pride (including sympathy, empathy, and attachment), aspirational discontent, and respectful authenticity, all increasing the receptivity to change.

Whether these three emotional levers adequately embrace the specific characteristics and needs of small-sized companies and are of particular relevance or even whether alternative layers may be necessary, is at the heart of the following reflections. Figure 3 on the following page illustrates the chosen approach and connects the theory of emotional capital (EC) with the aforementioned five thematic clusters' findings.
Values and Beliefs

Founders and entrepreneurs, often found in small-sized companies, are self-motivated and passionate about their vision, risk-taking, and highly persistent. They have a strong inspirational effect on others, particularly when paired with exceptional knowledge, as in the present case. The owner's passion, humility, and positive basic attitude created a very distinct culture where hard work and technical innovation were in the foreground. People joining the company were sharing these principles and executing them. The long-lasting success confirmed the "rightness" of these principles and also moderated the need to share additional information such as funding, service profitability, or other critical financial figures.

As long as the company was doing well, no necessity was seen to share such information. People working for the company had thus learned not to ask critical questions or challenge proposed innovations and new services since the owner was considered an expert in his field of competence and his mantra "there is always a solution" allayed possible doubts.

The corporate culture was comparable to an extended family where everyone had their place and could rely on a caring father. Therefore, many key people did unconsciously expect the owner to show the way to pursue and to lead the company in strategic matters. In turn, this led to a kind of dependency where emancipation and challenging seemed difficult to develop, and the empowerment of people hardly happened aside from technical knowledge. The following comment of an employee was emblematic:
“We often waited for him to find a solution or to guide us on what to do, we believed in his ability to see beyond and then executed.”

This strong but definitely also positive corporate culture had, however, a shadow side as well since it allowed unchallenged cognitive biases. For example, when market competition increased and the customer's quality focus shifted towards price sensitivity, it was noticed that the firm responded to the challenges with additional quality services and even more hard work instead of adapting to the changed market needs. Previous success had anchored values to be "right" and favoured a similar approach as chosen in the past, confirming existing beliefs. Overconfidence may have also contributed to the conviction that what had been successful in the past would also work in the future when working hard and persistently. A quote of an interviewee seemed to support this hypothesis:

“I had the feeling that the key management members did not oppose but supported his view since he was the authority and founder of the company with the expertise.”

As discussed, corporate cultures in small-sized companies may lead to dependency in small groups like management teams, occasionally inducing helplessness or even alienation and apathy when asked to lead. Under such circumstances, a particular susceptibility to different types of biases, typically on the leader's side, seems thus likely to occur and reduces the company's receptivity to change. A challenging environment with empowered people in contrast, where open and honest discussion of different opinions is advocated, may prevent biases and dependency to arise and thus would strengthen the receptivity to change.

With the proposed emotional levers, the EC theory does not entirely address these aspects since they are not supposed to have a predominant impact in large companies because different groups and actors will probably mutually moderate the effects. The feeling of being appreciated for our differences and contribution to others, defined as deserved pride, is certainly helping a lot to provide a healthy and challenging environment but does not fully capture potential biases and the basic assumption of dependency as defence mechanisms against anxiety. Due to the strong influence and power of the owner/manager it affects the management team as small groups disproportionally high. The perception to see change as an addition, reconciling past and future is hardly achievable.
Leadership Issues

Leadership in small-sized companies is often strongly linked to the company's culture and frequently forms an interrelated pair since values and beliefs are enacted or expressed through the owner/manager's leadership. Therefore, it can be assumed that the conclusions made earlier remain largely valid concerning leadership as well. However, it was found that the rather patronal leadership style had affected the company also in other contexts.

For example, it has expected any new leader to adapt somehow to his style and made it challenging for the management team and the employees to experience a different style. People became accustomed to a specific leadership style and started to apply or use what they had learned. A couple of interviewed persons mentioned, for instance, that the owner was not at ease when he had to deal with conflicting parties and was instead avoiding making decisions. People reported that his gentle style had often led to tolerate conflicts too long or to make decisions too late, as the following quotes indicate:

“I am not sure if and how he handled critical situations, but it seemed to me that his rather philanthropic character and his tendency to always give employees various chances were too mild, and effective coaching was missing.”

“He was too gentle and waited too long, did not really discussed with others, but then took a lonely decision often without explanation, leaving us sometimes puzzled.”

Similarly, it was noticed that the management showed comparable behaviour and struggled to handle conflicts. It seemed that they had adapted their leadership style or at least not learned how to deal with specific situations. They tended to either delay or to delegate critical decisions to the top as some comments suggest:

“Management had difficulties in deciding and tolerated underperformers; they tended to procrastinate the confrontation and allowed the situation to persist.”

“Employees frequently asked the owner directly for advice instead of turning to their line manager. I think that decisions were often delegated, instead of being taken.”

Accepting responsibility in terms of leadership was thus rather poor, and also little encouragement was encountered to decide for oneself. Instead, people started to work even more and harder, believing it would improve the situation. When the situation did not improve, people felt alone, overburdened, or not supported with additional resources and occasionally ended up having a burnout. The strong and rather transactional leadership style
of the owner, which positively impacted the company as long as it remained small and manageable, hardly allowed people to develop leadership, needed to manage a larger company, and equally important for the owner to rely on. Management simply had not learned to lead the company more independently, set challenging but own goals, and develop managerial strengths.

Although the owner's leadership style was generally well-rated and reported to be an appropriate mix of task and relationship-oriented approach, management saw the owner much more task-oriented than relationship-oriented and thus rather authoritarian and directive. In contrast, his family and the board of directors claimed to be more relationship-oriented and hence preferably cooperative. These different perceptions may also be interpreted as a deficit of organizational feedback culture where mutual expectations are openly discussed and reflected. The high respect towards the owner was possibly hindering reciprocal but positive challenging, which in turn is a prerequisite for the development of aspirational discontent, generating continuous improvement.

The EC theory also promotes organizational learning from best practices and mistakes integrating frequent feedback loops, but considering the present circumstances, seems difficult to practice. The leadership behaviour encountered does indeed lead to a high attachment and relatedness but, at the same time, decreases receptivity to change as initially suggested by Huy (1999) in order not to jeopardize the positive feeling of belonging. It also reduces authentic behaviour since people will not fully express their true feelings but will instead accept the owner's opinion and stay in the current role-playing the game.

A transactional or task-oriented leadership style seems appropriate and very effective in specific situations, particularly in difficult and complex settings. When maintained, it is moderating own considerations and hinders people from developing personal leadership skills. Hence practicing a transformational and cooperative leadership style is equally important, especially for sound organizational development.

It cannot be said that the EC theory would not cover those issues, but when talking about the likelihood of building up emotional capital in small-sized companies, the need for leadership development is most probably underestimated, particularly for the owner/manager because of his crucial impact.
**Resources and Capabilities**

The recruitment procedure usually involves HR professionals and line managers, defining the needed skills, experiences, and education, and interviewing suitable candidates. Frequently the supervisor of the line manager joins for the last interview before the final decision is taken. In small-sized companies, however, we often observe HR executing mostly administrative tasks and only assisting in opinion building. Definition and selection of needed key resources are mainly driven by top management and particularly by the owner, who either has the last call or is voluntarily involved by management to ensure that the decision is supported.

In the present case, most of the key people were either chosen by the owner/manager or a management team member. In both cases, it was noted that the prime focus was put on technical expertise rather than soft skills or management skills. It seemed that it had followed the owner's specific idea, somehow seeing a part of himself in the candidate and thus concentrating on academic and technical capabilities. Maybe he unconsciously meant to create an image of himself and thereby build on his earlier success. Because he quite closely accompanied key people but primarily on their technical development and interacted mostly fact-based, leadership skills could hardly develop and were limited to technical excellence. In this context, a notable remark was given by an employee stating that…

…until recently, all end-of-year discussions with the employees were conducted by him (owner) without significantly informing the direct superiors about the outcomes.

Although this statement is not directly related to the described recruiting practice, it appears to symbolize a distinct culture of resource management and his urge to maintain control on key employees, as if it were absolutely necessary to secure certain principles or to keep "house rules" alive. One person even mentioned that…

…employees do not learn anything from management except technical insights and that working hard is expected.

Hence, it is not surprising that the owner mentioned not being able to understand people showing only half-hearted motivation at work, considering the exciting opportunity the job is providing. For him, it was simply not conceivable to see a job just like labour, and he expected everyone to go the extra mile and work overtime just as he did.
As long as the owner was in command of the situation, controlling and nurturing a strong culture of technical excellence and hard work, delivered successful company results but also increased a uniform mindset, possibly hampering independent thinking and thus added only little value to the company. It probably also impeded the building-up of additional capabilities at an organizational level, such as management capabilities or soft skills. Instead, the newly hired key resources were likely to just perform their attributed roles without really challenging the given status and thus reinforcing the current business way. Under such circumstances, emotional enactment was rather rare. The constant increase in work performance without really changing the way of internal cooperation had led to work overload and caused people to feel helpless. In the absence of social learning with people not being in control, this situation has also resulted in some burnout cases.

Thinking in options, allowing alternative reflections to emerge and express, and developing diverse capabilities, in contrast to uniformed thinking, is important though and is supported by an atmosphere of emotional experiencing and reconciliation expressed through empathy and sympathy, respectively. These emotional dynamics are part of deserved pride, one lever of emotional capital, helping organizations increase their receptivity to change. Similarly, learning from best practices and mistakes or discussing taboo issues, which is defined as respectful authenticity, helps to mitigate emerging feelings of helplessness.

Insofar the EC theory is basically covering those aspects but perhaps needs a more in-depth examination to grasp the specific characteristics of small-sized companies entirely.

**Processes and Procedures**

Processes are usually divided into management, client, and support processes. Among the management processes, decision-making is one of the key processes, which often reveals organizations' cultural aspects, can provoke strong emotions, and may trigger corresponding behaviour. Owners and managers of small-sized companies usually exercise a strong influence on decision-making to ensure that the company is being taken in the direction they deem appropriate. So, it is not surprising that the owner had some difficulties accepting deviating decisions to his initial intention or what he was hoping for. It is comparable to the father, who labours to let his adult children achieve autonomy and continues to give guidance. During the interviews, several comments were given, confirming the mentioned assumption:

“*He (the owner) struggled to accept a decision against his conviction.*”
“It was difficult to change his opinion, and if we could not convince him, he (the owner) then tended to postpone or delay decisions until it had become a reality.”

Interestingly, the owner stated that he mostly took important decisions alone while jogging or discussing with his wife. The fact that the owner decides alone is, in general, not exceptional and rather normal since it is his company. However, if the preceding decision-making process remains vague and the people do not feel heard, valued, or understood whatever they propose, they start to pull out and retreat from active cooperation. Not having a voice that actively counts and not being fully able to contribute to the company's positioning hinders the experiencing of feeling included and, thus, the relevant development of belonging. Some people even reported having had the feeling that decisions were mostly taken upfront before the meeting, and that the owner was seeking confirmation only. Under these conditions, people developed a kind of indifference and, over time, even disengaged and claimed decisions to be taken by the owner. The feeling of not being part of decisions and thus being out of control evoked strong emotions of powerlessness and helplessness, increasing the risk of potential maladaptive behaviour.

According to my experience, the described vignette is not uncommon in established small-sized companies and not critical under stable conditions. When facing times of radical change, however, it becomes a major threat. Transparency, a catalyst for authenticity, is a key characteristic of fair process (Van der Heyden & Huy, 2008) and supports companies to keep a culture of fairness, which could have helped in the present case. The principles of fair process are well advocated by the EC theory through sympathy, empathy, and attachment, known as deserved pride, but also through authenticity, creative dissatisfaction, and engagement. Since emotions often drive family businesses, the EC theory provides a sound framework to handle procedural issues also in small-sized companies.

**Organisational System**

The impact of organizational structures on employees is often underestimated and is merely seen to efficiently organize groups and tasks. The definition of teams, departments, or divisions does indeed create own systems with distinct cultures, rules, and boundaries. Since the present company was primarily organized around technical skills or competencies, it reveals a variety of departments and divisions. With 15 departments, it is no exaggeration to say that the company seems over-organized and thus suffers from unclear leadership or loose responsibilities. This was reported repeatedly as the following quotes indicate:
“Often, it was unclear whether the department head or the project manager had the lead.”

“I was not sure where decision-making competence was located, and I often missed some guidelines, so I waited for someone to tell me.”

The previous hands-on mentality, paired with the owner's strong leadership, made it unnecessary to adequately organize the company structure as long as the company was rather small. However, with the economic growth of the company, things started to get more complex. People started to organize between themselves and allowed a more informal organization to grow. It was also noticed that bilateral decisions were taken without really involving other management team members. As a result, roles and responsibilities became slightly loose, and boundaries unclear. People started to feel uncomfortable or insecure and to pull out, preferring not to raise their voice and to keep “silent.” Unfortunately, this is a fertile ground for the development of organisationally induced helplessness and even burnout.

A well-structured organization with clear roles and responsibilities is a prerequisite for efficient and authentic work. This aspect is, however, not explicitly addressed by the EC theory, although it could be argued that implementing the proposed five levers do indirectly assume a well-structured organization as a precondition.

**Summary and Suggestions**

In general, the EC Theory seems applicable to small-sized companies, but the thematic analysis revealed some shortcomings, nevertheless. For instance, it became evident that adequate leadership training, at least for the owner and to some extent for the management team, seems necessary. Building up emotional capital requires a mature leadership culture as a sound organizational foundation. It needs a diverse resource basis with multiple skills and a structured environment with clear roles and responsibilities. An organization where leadership promotes diversity and simultaneously secures a well-organized structure, would enable a resilient organization to be open for change. Thus, it is proposed to add a sixth lever to the EC theory embracing the described characteristics, which I would name **organized resiliency**, expressed through feelings of intimacy, certainty, and reliability.

Small-sized companies' various cultural aspects also showed that it is evenly essential to create a specific and psychologically safe environment, where people feel empowered, self-valued, and self-confident, where different values can coexist, participatory management is
practiced, and team cohesion can develop. Another important aspect is reality-testing, the ability to differentiate what is experienced or perceived, and what objectively really exists. It requires a self-reflective environment where independent thinking is supported, and playing the devil's advocate allows uncovering inadequate perceptions.

For these specific characteristics of small-sized companies, it is therefore proposed to consider adding a seventh lever to the EC theory. This additional lever may be defined as empowered independence, expressed through feelings of participative inclusiveness and belonging, but granting autonomy in a balanced power and decision-making environment.

Therefore, it is hypothesized that two additional levers, in addition to the existing three levers, do influence change receptivity of small-sized companies. Large companies probably do not need the additionally proposed levers since they can rely on specialized departments, diverse management teams, stable structures, and experienced leadership in contrast to small-sized companies. This might also explain why small-sized companies perhaps need more support and why they might be more susceptible to organisationally induced helplessness and burnout.
Limitations

Although the instrumental case study may undoubtedly be considered an appropriate research method, it is subject to certain limitations. Using one single case, for example, possibly limits the findings to the present case and thus cannot necessarily be applied to other cases. However, it provides interesting insights worthwhile to study at a large scale on a more quantitative level.

The more interpretative character of observed behaviours and phenomena, a key aspect of the interpretative phenomenological analysis (Pietkiewicz & Smith, 2012), is though also susceptible to preconceived thoughts and own biases. Again, testing different hypotheses and integrating additional researchers may help to reduce the risk of a "single-minded" interpretation, which should be considered for future subsequent work.

Finally, it was noticed that the proposed levers of emotional capital were not always sufficiently precise to allow a clear definition of their content. For this reason, it was rather difficult to correctly assign emotions and feelings to a specific emotional dynamic or lever and, in consequence, might have led to a certain haziness when developing key findings and suggestions. Lastly, it seems worth repeating that the focus was set on change receptivity being one of the change dynamics only and ignoring mobilization and learning, respectively.

Future Research

The present study was intentionally conceived as a possible pre-work for future research and thus offers various opportunities to deepen.

As already mentioned above, one aspect is to define better and delimit the proposed three levers of emotional capital influencing change receptivity, as well as the two additionally suggested ones in this study and test their robustness. Of further interest is to what extent those levers do interact and mutually influence each other. It might provide valuable insights about their importance and timely order bringing out the best results. Finally, the differences between small-sized and large companies are to be further analysed and compared against the sharpened levers. Particularly interesting is also from which company size differences become noticeable in order to draw precise conclusions.

Another notable research question appears to be whether different industries, such as technology-based versus craft-oriented companies, produce different results. Due to their
different corporate culture, it may well be that emotions are differently handled and thus require different emotional levers.

Lastly, the phenomena of organisationally induced helplessness (OIH), dependency, or burnout, particularly in small-sized companies, is a subject that has yet not received enough research attention and deserves more academic recognition.

**Conclusion**

Although small-sized companies' importance for the national economy is not contested, it has yet not been recognized enough by academic research. The present thesis was thus also an attempt contributing to fill the existing gap to some degree and potentially open up the field for future research.

In this thesis, I have challenged the EC theory's applicability for small-sized companies, arguing based on their distinct differences compared to large firms. My intention was not to refute the theory, but rather to enrich or to extend it. For example, I have demonstrated that small-sized companies had indeed a very distinct culture not comparable to the usual corporate culture of large firms, triggering specific behavior, such as dependency, for instance, and hampering a reasonable and sound organizational development. Based on a selected but in-depth literature research, insightful company or case assessment, and a transparent methodology, I was able to extract interesting aspects of a small-sized company's "inner life," which helped me better grasp the essence of the EC theory. It allowed me to empathize and to better understand both the owner's side and the management perception.

Radical change can be perceived differently. For example, a new CEO in a large company may bring adaptions and some changes, but in small-sized companies previously often managed by the owner, it may heavily disturb values and beliefs. This underpins the importance of putting a different perspective on small-sized companies and treating them separately to some extent. Although the EC theory is largely well applicable to small-sized companies, it still needs an individual approach, which was basically done with the present study. It revealed new dynamics yet not fully covered with the existing theory and proposed as organized resiliency and empowered independence, still to be tested and confirmed on a broader and more quantitative basis.

These insights may help small-sized companies to improve their receptivity to change and hence to increase their future competitiveness.
Bibliography


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EMOTIONAL CAPITAL FOR SMALL-SIZED COMPANIES


Appendix: Interview Questions

A: About the owner

- How would you describe the influence he had on the organisation and can you elaborate with some examples?
- When important decisions had to be made, how did he usually proceed (e.g. alone, with particular persons, with the board, democratic etc.)?
- How would you describe his leadership style (e.g. laissez-faire, charitable, cooperative, delegative, authoritarian, patriarchal etc.)?
- How does he handle conflicts (e.g. resolve, discuss, sit out, ignore, delegate etc.)?
- How does he deal with under-performers (e.g. address, claim, putting pressure etc.) and can you tell me a characteristic example?
- What do employees learn from him?

B: About the organisation and management team

- How are important decisions made today (e.g. in consultation with the owner, alone, in teams, with propositions and recommendations, discussions etc.)?
- How would you describe the general leadership style (e.g. laissez-faire, charitable, cooperative, delegative, authoritarian, patriarchal etc.)?
- How are conflicts handled by the managers (e.g. resolve, discuss, sit out, ignore, delegate, ask the owner etc.)?
- How does the company deal with under-performers (e.g. address, claim, putting pressure, ask the owner etc.) and can you tell me a characteristic example?
- Does management assume responsibility and how?
- What do employees learn from management (leadership, conflict management, decision-making, business etc.) and do you have a good example?

C: General questions

- What attribute does a good boss have?
- How important is transparency in decision-making?
- Should it be possible to show feelings and emotions at work (why, why not, advantage, disadvantage etc.)?
- What makes employees proud of?