Affective Foundations of Capability Development: an exploration in an SME context

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Introduction

More than two decades ago Fineman (1993: 217) posed a question that inspires this paper: "In what ways do decisions unfold over time as a function of the way people *feel*…how, for example, does anxiety, suspicion, love and hate take decision making through various paths towards particular outcomes?" This is a crucial question and like Huy (1999, 2012) and Sturdy (2003) we advocate the need to conceptualise feelings and emotional states as a vehicle for organisational theoretical development.

Seeking to find an answer to the question posed by Fineman is critical in the realm of capability development, as managers' decisions regarding capability development and enactment has implications for competitive heterogeneity. Whilst Hodgkinson and Healey (2011) highlight the importance of understanding the role of emotions in dynamic capabilities, theoretical attempts at linking the two have been modest. There are a small number of studies investigating the role of emotions and emotional dynamics in innovation (Baumgartner et al., 2008; Vuori and Huy, 2015), organisational change (Huy, 1999), and strategic decision-making (Liu and Maitlis, 2014) which allude to the importance of emotions in capability development. Yet, we know little about emotional or affective bases and outcomes of capabilities. This lack of attention is surprising given the importance of capabilities to competitive advantage and the importance of emotions in organisational behaviour. Our empirical study seeks to address this gap and offers the potential to broaden the understanding

of the importance of affect on organisational development. We focus on how different affective states and their management and regulation can act as mechanisms for capability development.

These issues are addressed by undertaking in-depth qualitative research in five organisations, ranging from micro organisations to medium-sized enterprises, operating in different industries, ranging from IT to traditional manufacturing. Exploring the same set of issues in such different organisational contexts, we believe, allows us not only to establish the centrality of affective foundations of capability development but also to reach a more nuanced understanding.

This paper begins by building a conceptual discussion about what we mean by affective states and discussing the key debates within the literature around the outcomes of affective states for the individual and the organisation. We then describe the research approach undertaken to empirically investigate the outcomes of affective states for capability development, before moving on to elaborating our findings. Our findings and discussions demonstrate that affective state influences capability development, and it does so in a multi-faceted ways, with pervasive effects on decisions and processes supporting capability development in organisations. We also highlight how power dynamics and affective ambivalence may play a role in capability development. We conclude with a discussion of implications for the field and avenues for further research.

Theoretical Background

Emotions are an "integral and inseparable part of everyday organizational work" (Ashforth and Humphrey, 1995: 98). Organisations are characterised by a wide range of emotions. Some are positive, such as optimism, passion, love and happiness, and others are negative, such as anger, fear, anxiety, sadness, and disappointment. Such emotions result from daily situations and emerge and evolve through events such as business success / loss and economic downturns. Hochschild's (1983) seminal work proposed that emotion was a "covert resource" needed by companies to get the job done. Efforts to formalise the development of "emotional literacy" noted by Fineman within organisational arenas has led to a proliferation of literature in certain fields of organisational theory and behaviour (e.g. emotional intelligence, emotion work, emotional labour).

Yet, research into the role of emotions in strategic management and, more specifically, organisational capabilities is rare (Hodgkinson and Healey, 2011; Huy, 2012; Salvato and Rerup, 2011). Whilst research into the cognitive antecedents and outcomes of capabilities and dynamic capabilities is increasingly gaining prominence (e.g., Ambrosini et al., 2009; Verona and Zollo, 2011; Winter, 2013), this research overwhelmingly focuses on "cold cognition", thus lacking consideration of emotions (Hodgkinson and Healey, 2011: 1503). We are not undermining the importance of this stream research and even argue for its centrality to emotion research inasmuch as emotion is always a critical part of construction of cognitive appraisals (Forgas, 2003) and cognitive appraisals are necessary to arouse emotion (Clore and Ortony, 2000 cited in Russell 2003). However, we join Russell (2003: 145) in contending that "humanity can progress without considering emotion – about as fast as someone running on one leg". Therefore, understanding the role of emotions in organisational capabilities and capability development is crucial. A review of the literature on emotions gives us some understanding of how they may be important in the development and enactment of organisational capabilities.

Emotion is too broad a class of events and there is no agreement with what is an emotion as a single scientific category (Russell and Feldman-Barrett, 1999). It is viewed as an act of sense-making (Maitlis et al., 2013) where we register a specific event based on certain dimensions such as prominence, noteworthiness, pleasantness, relevance to our goals, perceived goal obstruction, anticipated effort and our potential for coping with the event (Frijda, 1986; Scherer, 1995; Smith and Ellsworth, 1985). This sense-making process results in an emotion that belongs to one of these five basic families: approach (e.g. interest and hope), achievement (e.g. satisfaction and joy), deterrence (e.g. anxiety and fear), withdrawal (e.g. sadness and resignation), and antagonism (e.g. irritation and anger) (Scherer and Tran, 2003). Over time, the memory of the specific event might fade away but the emotional state, the mood, can linger on with no conscious causal connection to any antecedent (Cropanzano et al., 2003).

Due to the complexities in attaching emotional states to specific antecedents and causal forces, psychology scholars are abandoning emotion as a technical term (Russell, 2003) and instead are distinguishing between emotional episodes and core affect. Emotional episodes are discrete, short-lived experiences concerned with a specific intentional object – a person, condition, event or a thing – real or imagined (Forgas, 1995; Russell and Feldman-Barrett, 1999; Russell, 2003). Emotional episodes are typically fleeting while core affect is more diffused, longer lasting that remains salient even after emotions caused by the initial

antecedent episode fade (Forgas, 1995). As such, core affect need not be consciously directed at anything, they can be object-less (Russell and Feldman-Barrett, 1999; Russell, 2003). Core affect can be experienced in relation to no known stimulus – an affective experience disconnected from the cause (Cropanzano et al., 2003). What makes core affect object-less and diffuse is its complex causal history subject to many forces. It is difficult for the individual to directly access the causal connections that accumulated into experienced core affect because it typically is the result of the accumulation of continuous flow of events (Russell, 2003). In organisational settings, emotional states that recur consistently over time are likely to have a more systematic effect on organisational processes than occasional fleeting emotions (Vuori and Huy, 2015). The behavioural consequence of emotional episodes, however, is beyond deliberate control; they result in hastily planned quick fixes that are not necessarily conscious (Russell, 2003). Therefore, the temporal dimension and the behavioural consequences suggest that, for the purposes of this study, it will be more appropriate to explore the role core affect plays in capability development rather than the role that emotion plays.

There is a strong belief that emotion interferes with cognition and is a barrier to rationality. It has been argued that strong emotions occupy cognitive capacity and redirect attention to the emotion itself distorting our evaluations and consequences of decisions (Elfenbein, 2007). Some scholars have argued that even positive affect can serve as an interruption by causing individuals to become less critical and dismiss certain signals because they want to protect their positive moods by avoiding unpleasant thoughts (George and Zhou, 2002; Isen, 2001). As much as core affect can disrupt thinking, it can guide cognitive processing by directing attention, perception, thinking and judgement (Russell, 2003). Core affect provides the primary feedback mechanism alerting the person that various set goals are not achieved and this, in turn, provides motivation to reach decisions and implement them (Huy, 1999; Loewenstein and Lerner, 2003 cited in Elfenbein, 2007). Higgins (1987), in his self-discrepancy theory, describes how matches and mismatches between events and what he calls "self-guides" produce changes in core affect which, in turn, motivates behaviour. When a person compares the perceived reality with the template of prior expectations and finds there is a negative mismatch this produces unpleasant core affect and arouses dissatisfaction with the current state. This core affect in turn stimulates learning and change (Hochschild, 1983). By directing attention to the particular target that triggers dissatisfaction, emotion facilitates actions addressing the target helping the individual to resolve discrepancies between the

current and desired state (George and Jones, 2001) and achieve a favourable relationship with the environment surrounding them (Vuori and Huy, 2015). The action tendencies of positive affective states tend to be less specific but evidence suggests that it encourages creativity, self-development, goodwill, cooperation and making constructive suggestions (George and Brief, 1992). Thus, affective states can be catalysts propelling us to action to address immediate problems and change the situation for the better (Frijda, 1986) and improve organisation into a more emotionally fulfilling one (Dutton, 2003). Core affect, as such, are psychobiological responses linking cognitive and motivational systems (Salovey and Meyer, 1990) and can likely act as a catalyst for the development of new organisational capabilities, something that we seek to investigate in our study.

The affect-as-information perspective (Schwarz, 2011) argues that core affect experienced by individuals underlie the meaning structures of individuals shaping how real-life events are perceived and evaluated. Support for this perspective comes from the research showing that affective state influences experimental subjects' reactions to standard emotion elicitors (Watson and Clark, 1984). For example, individuals who are experiencing anxiety are likely to interpret events as signalling uncertainty and lack of control (Raghunathan and Pham, 1999), while positive affective states lead people to end up with more positive evaluative judgements (Shwarz and Clore, 1983) and to overestimate probabilities of positive events (Zelenski and Larsen, 2002). This suggests that core affect can have distinct effects on resulting behaviours and cognition, which makes it of critical importance to understand managers' interpretation of events that would shape their responses in terms of capability development.

The behavioural and cognitive implications of core affect suggests that it can also influence decision-making processes by influencing people's choices (Izard, 2009). This is because different affective states are likely to prompt distinct implicit goals during decision-making (Raghunathan and Pham, 1999) such as setting goals and choosing actions to enhance chances of survival or proliferation (Damasio, 1994 cited in Huy, 1999). Positive and negative affect map onto promotion and regulatory focus, respectively, with individuals high in positive affect focussing on promotion of positive outcomes (Brockner and Higgins, 2001). When people are enthusiastic, active, interested and alert they are driven by development and growth and will seek to bring their behaviours in line with the core affect they are experiencing (Huy, 2002). When they are distressed and nervous, they will seek continuity and security and their primary motivational foci will be to prevent losses and other negative outcomes. This

suggests that while positive affect, like hope, gives a person a sense of optimism and leads them to choose more challenging plans and goals or help to make a leap of faith into the unknown (Westen, 1985 cited in Huy, 1999), negative affect, like fear, will have markedly different behavioural consequences. By leading to different motivational inclinations, this suggests that core affect has the potential to influence management's and organisations' affective commitment to capability development and shape goal-setting and action-planning with respect to capability development initiatives.

Core affect also influences decision-making through information-processing. There are four mechanisms at play here. First is the process of affective forecasting. We use our anticipated emotions to make decisions that will expose us to desired emotions and avoid unwanted ones (Loewenstein and Lerner, 2003 cited in Elfenbein, 2007). Secondly, core affect influences memory – an effect known as mood congruence. Core affect serves as a filter, allowing information consistent with the experienced affect to enter long-term storage (Baron, 2008). As such, a person with positive affect can filter out unpleasant information. Thirdly, core affect also influences information recall – an effect known as mood dependent memory. Core affect here serves as a "retrieval cue" (Baron, 2008: 330) prompting recall of information in a mood congruent manner. Positive core affect facilitates accessibility of positive material, while negative core affect facilitates accessibility of negative material (Russell, 2003). Finally, core affect not only influences memory but learning of new information. New information is also perceived and interpreted in a mood congruent manner (Forgas, 2003). By directing attention, memory and learning to a certain type of material, core affect can go on to influence decisions. A manager might decide to invest in a production line because her core affect led her to remember a previous successful production line investment, which in turn led to formulation of new investment plans per the remembered affective quality of past experiences. The manager's positive core affect can also influence the decision by leading the manager to attend to the new production line's positive features.

The above discussion on influence of core affect on behaviour, cognition, attention, perception and memory does not only apply at the individual level as emotions often come to be shared at group or organisational levels as a result of the process of emotional contagion (Elfenbein, 2014) emerging from group dynamics such as mutual interaction, cohesion, and organisational culture (Huy, 2002). Emotional displays of group members have powerful effects on processes such as decision-making (Liu and Maitlis, 2014) and managers can model emotional reactions to help achieve desired emotional states in response to specific

situations (Pescosolido, 2002). Managing group- and organisational-level emotions and manipulating them to increase organisational members' receptivity and mobilisation to organisational development initiatives requires organisational emotional capability – defined as the ability to recognise, monitor and attend to its members' emotions (Huy, 1999). This ability is built into an organisation's routines (Huy, 2012) and allows organisations to manage their members' dominant emotional states, the so called emotional climate (Scherer and Tran, 2003), to realise desired organisational outcomes by eliciting hope and resilience to prolonged uncertainty, increasing coping ability, or manipulating the perceived uncertainty in the face of organisational change and strategic renewal (Huy, 2005; Huy, 2009). They may seek to take actions eliciting different emotions to enhance positive emotions and reduce negative emotions, increase receptivity and mobilisation for change, inject energy into their change project and contain resistance (Huy, 2002; Huy, 2005). This might require emotional balancing actions (Huy, 2002), to balance change and inertial drivers, to drive change while maintaining some level of continuity, which is key for organisational adaptation.

Although extant literature has identified these potentially important affect-based effects, there has been limited empirical research examining how different types of affect and their management influence organisational capabilities. Liu and Maitlis (2014) observed top management meetings to explore how emotional dynamics displayed in these strategic conversations shape organisational strategising. While the emotional dynamics observed in their study raise important insights on how emotional display shapes team relationships which in turn affect the conversations taking place in team meetings and outcome of these meetings, it would be thought-provoking to take a step back and explore how the affective state experienced by these individuals shape the strategic choice they get committed to. Baron (2008) develops several propositions in his conceptual paper to suggest that affect may have important effects on opportunity recognition and the capacity to respond effectively to change, however empirical evidence is lacking. To explore how affective state shapes strategic choice, Vuori and Huy (2015) conducted a qualitative study of Nokia to understand how the emotions experienced and shared by top and middle managers during the smartphone battle caused cycles of behaviours that harmed innovative capability processes and outcomes leading to Nokia's decline. Their study raises important insights contributing to the affect-as-information perspective by explaining how fear influenced managers' interactions and actions contributing to myopic decision-making with catastrophic consequences. The study, however, due to its scope, focuses on only one affective state and highlights the dysfunctional aspects

of affect. While focussing on negative affect, such as fear, is understandable, as such affect commands more attention than positive ones because they evoke stronger cognitive and behavioural responses (Cacioppo et al., 1997) and are recalled better (Dasborough, 2006) as they evolved to help people ensure their survival (Baumeister et al., 2001; Spoor and Kelly, 2004), positive affect is equally crucial in that it facilitates cooperation (Spoor and Kelly, 2004) and creativity (Clore et al., 1994 cited in Elfenbein, 2007). Negative emotions have valuable roles for work life, such as when dissatisfaction forces us to extensively and deeply process information and think systematically to reveal the underlying problem (Shwarz and Clore, 1983; Kooij-de Bode et al., 2010) or when anger motivates us to confront an obstacle or an offender to cause change in the situation (Keltner and Haidt, 1999). As such, we think a wider range of affective states are worthy of further investigation to reveal their varying effects on organisational processes and their development.

Despite these potentially important affect-based influences, there has been little empirical research that examines how different affective states and how managing seemingly opposite affective states at the personal and interpersonal level affect organisational development. In the multiple case study described below, we explored the influence of various affective states, and the management of affect, on organisations' capability development.

Methodology

Data Collection

This paper uses data collected from owner-managers (and one technical director) of five organisations operating in a variety of industries and ranging from micro-organisations to medium-sized enterprises:

Organisation	Area of Operation	Length of Operation*	Number of Owner-Managers*	Number of Employees*	Owner-Managers Interviewed
Brakes Co	Designs and manufactures brake drums and break discs as original equipment manufacturer for the automotive industry	45 years	5	~200	3

Merchandising Co	Sells a wide range of promotional items (e.g. pens, pencils, bags) to organisations	15 years	2	2	1
IT Co	Provides a variety of IT services e.g. disaster recovery and cloud services.	14 years	1	4	1
Rubber Co	Produces rubber parts and discs as original equipment manufacturer for the automotive industry	48 years	3	~150	2
Oil Co	Produces and distributes olive oil and processed vegetables	22 years	3	~75	2

At the time of data collection

Our primary data collection method was semi-structured interviews. 20 interviews were conducted with 9 owner-managers of the participant organisations plus one technical director in IT Co. Simply to ask owner-managers how they think their core affect guides organisational development and how they regulate their affective state to catalyse capability development and implementation is problematic given the tacit nature of affective states. As such, insights were illuminated gradually and subtly through in-depth qualitative interviews (including both narrative and more traditional interviews). The focus of the interviews included, amongst other things, the development, growth and renewal of the organisations and opportunities and challenges faced. The interviews proved to be a rich source of insights into individual and organisational level affect and their management, and the effects of these on capability development.

Data Analysis

The analysis of interviews and case narratives combined established methodologies for qualitative data analysis (Miles and Huberman, 1994) and grounded theory building (Charmaz, 2006) consisting of two opposing strands of activity – fragmenting and connecting. The process of fragmenting involved coding pieces out of the interview data, which is explained in the first subsection below. Then the process of connecting started, which involved capturing commonalities through the constant comparative method (Strauss

and Corbin, 1990) and associative analysis (Ritchie et al., 2003) which is detailed in the second subsection below.

Coding affective states and capability development initiatives

In order to identify affective states in the data, we began by familiarising ourselves with existing emotion models, such as PANAS (Watson et al., 1988), the circumplex model (Russell and Feldman-Barrett, 1999), and the rotated circumplex model (Cropanzano et al., 2003). We used the rotated circumplex model (Cropanzano et al., 2003) which has been highly influential in studying organisational settings and has resulted in extensive empirical work (Elfenbein, 2007). The model arranges all emotions in a circumplex sharing two independent dimensions (Russell and Feldman-Barrett, 1999). One dimension reflects the hedonic valence (pleasure – displeasure), and the second refers to the intensity with which one experiences the hedonic tone (activation – deactivation). The first dimension describes how well one is doing at the level of subjective experience ranging from positive affective states, such as happy and pleased, to negative affective states, such as sad and depressed. The second dimension suggests how much energy and sense of mobilisation a person experiences which is suggestive of action readiness. Together, the four bipolar dimensions produce eight emotions categories. The category of pleasure / activation (high positive affectivity) includes enthusiasm, excitement, alertness, interest and determination, while pleasure / deactivation category (low positive affectivity) includes contentedness, serenity, calmness. Displeasure / activation emotions (high negative affectivity) include nervousness, distress, upset, irritable, while displeasure / deactivation emotions (low negative affectivity) include depression, lethargy and grouchiness. Figure 1 summarises the four hybrid categories. It is important to note that the axes are rotated 45 degrees in this rotated version of the circumplex model which suggests that the experience of positive and negative affective states are independent and not necessarily bipolar – i.e., the symmetrical opposite of high negative affectivity is not low negative affectivity.
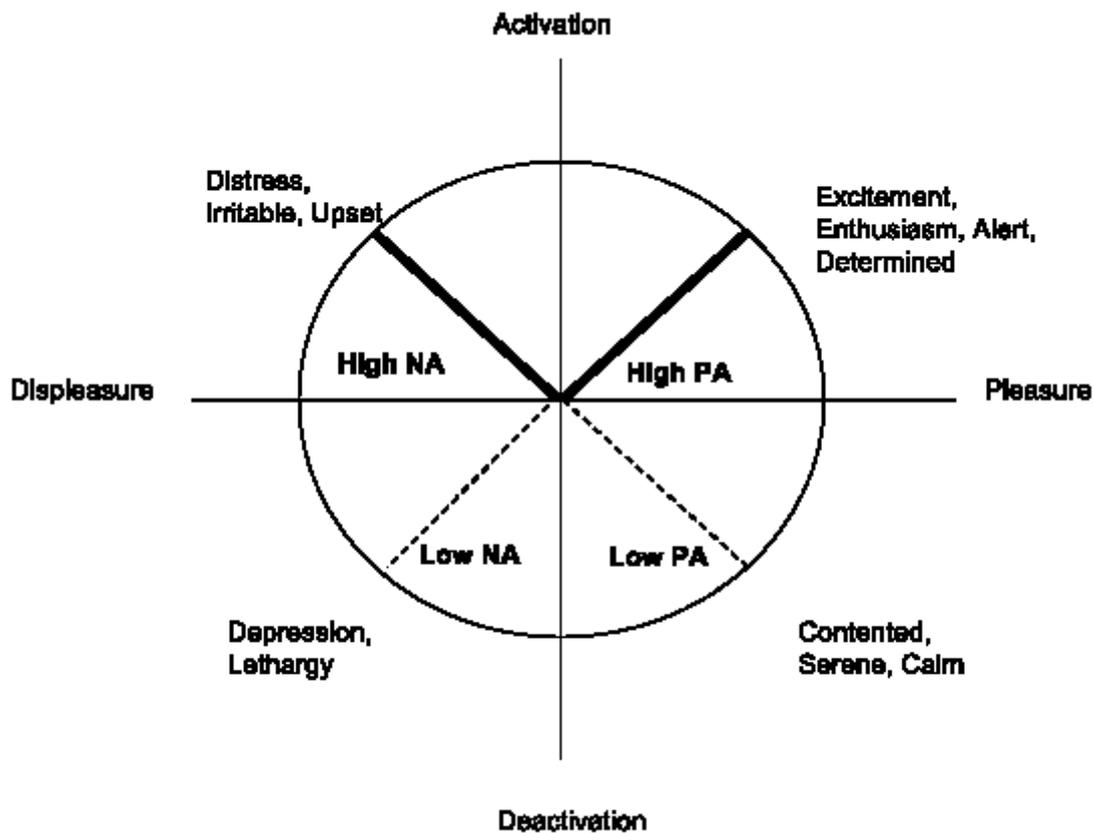
Figure 1. Rotated circumplex model of emotions (adapted from Cropanzona et al. (2003) and Feldman-Barrett and Russell (1999))

Coding was carried out by the two authors according to the four emotion categories described above. The affective states corresponding to each of the four quadrants were drawn from the PANAS descriptors from Watson et al. (1988) and the coding was done in line with words covered in those descriptors and also words covered in Shaver et al. (1987). Where the coded affective state appeared to link to capability development this was noted in the process of coding.

We also used a number of other codes to identify within our data key concepts and insights we had found within extant literature. These additional codes included: affective climate (Scherer and Tran, 2003), management of affect, affective commitment to capability development (Huy, 2002), and structural and behavioural antecedents of affect (Akgün et al., 2008; Akgün et al., 2009, Vuori and Huy, 2015). When coding data using these codes we focussed most strongly on data that linked to capability development. We also had a code to capture any other relevant insights related to affect and capability development.

To achieve inter-coder reliability the authors both coded the same two interviews and codes were compared, differences discussed and resolved. Where there was a disagreement, the two authors / coders discussed each code until an agreement was reached. During these discussions, it was found that the author who had conducted a specific interview would have a deeper understanding of the interviewee, of the organisation, and of the matter discussed in that segment of the interview, which would help to resolve the discrepancies in coding. After some practice and calibration, the two authors proceeded to code the rest of the interviews – each coding the set of the interviews they had conducted originally.

Analysing the interplay between affective states and capability development initiatives

Using the coding described above we wrote a summary for each case (totalling to 56 pages across the 5 cases) that described the affective states of individuals within the organisation, the characteristics of the affective climate as described and observed in the organisation, management of affect, affective commitment to capability development, and the internal and external structural antecedents of affect, as well as the apparent links between these different factors and also their links to capability development in the organisations. We began iteratively reviewing the data, looking for patterns through a process of constant comparison across five cases. We looked for commonalities and differences among a particular affective state and response in terms of capability development associated with it. We proposed and refined relationships between the two until they captured as well as possible the capability initiatives discussed throughout the interviews and the affective states observed. By the end of this stage, we identified a clear (enough) understanding of different affective states and associated outcomes with regards to capability development.

Findings

Following our rigorous data analysis process two key themes emerged. Each will be discussed, in turn, in the following two sub-sections. As we immersed ourselves more and more in the interview data during the analysis we found that we uncovered ever more depth and complexity. As such, whilst we seek to outline patterns in the data below we have also endeavoured to capture this complexity. Indeed, our first theme centres on the complex

dynamics we identified between positive affect, negative affect, and capability development. Theme 2 then covers affective tensions that we identified both between different organisational actors and within individual organisational actors, with a focus on how these tensions influence capability development.

Affective Complexity: The Impact of Positive and Negative Affect on Capability Development

Across the five organisations we found that positive affect overwhelmingly supports capability development, generally by catalysing and / or facilitating such development. In Oil Co, for example, all three owner-managers demonstrate positive affect such as activeness, enthusiasm and alertness. Such positive affect has supported a new market creation capability, a process improvement capability, and a creative marketing capability within the organisation. Alertness (a form of high positive affect), for example, enables scanning customer and competitor trends which can drive product development projects: -

> 'The customers are increasingly getting sophisticated when it comes to olive oil. They now know the type of olive, very much like in the wine industry, or the region the olive is cultivated. They ask for Şirince [a region] olive oil, Ayvalık [a region] olive oil, or olive oil produced from Memecik olives [a type of olive]. As a result, we have decided to divide our oils based on their acidity levels. We already had it but we are detailing it even further. So we have one tank to store oil above acidity level 0.5%, another tank for 0.3% to 0.5% and one for below 0.3%. 0.3% olive oil is a rare product, not widely found in the market, but customers have started to look for it so we will cater' **(Oil Co General Manager)**

The individuals we interviewed in Oil Co overwhelmingly demonstrated positive affect, thus making it the most positive of our five organisations. Nevertheless, positive affect, and mainly high positive affect, also enabled capability development in each of the other four organisations. For example, high positive affect in the form of alertness, attentiveness and interest triggered new product development and introduction of new technologies in Rubber Co. Rubber Co actively scans competitor activities, rival products, and customer trends and when they come across a product (either produced by the competitor or demanded by the customer) that cannot be fulfilled with extant technological capability, this fuels further

capability development. For example, Rubber Co's transition from compressor technology to injection technology (the most recent substantial capability investment at the time of the interview) was the result of the acknowledgement of an industry trend.

Furthermore, high positive affect in terms of passion and enthusiasm of the technical director in IT Co enabled a service development capability: -

> 'he's [the technical director] about twenty eight, twenty nine, you know, he's got this passion like I used to have at that age for new stuff and for keeping up with technology, you know. I love learning, you know, I always have and sometimes it's not learning what I'm doing as a job but I like to learn other things as well, you know, I've just a passion for different areas and he's very very focussed, you know, in this domain, this field, so I'm letting him run with that and all I'm doing I'm just saying 'right well OK that looks like a good area', so, you know, analysing where he's coming from and say 'yeah the company can go down that path it's a good one', you know, where he's the one who's investigating and coming up with the ideas. He's changed the company, not me, all I've done is allow it. He's changed it and he's got good ideas, he's got big ideas, he knows where he wants to be in this company in the next twenty thirty years, you know. I know I want to be retired, you know, so my goals are different and it's good to see that and I like that enthusiasm, you know, to take the company forward so that's what I'm training him up to do' **(IT Co Owner-Manager)**

In contrast to positive affect, we found the influence of negative affect on capability development to be much more balanced. In fact, in the four organisations in which negative affect was identified (Merchandising Co, Brakes Co, Rubber Co and IT Co), such negative affect could be both a hindrance to capability development and could support capability development. In IT Co, for example, the owner-manager's nervousness, jitteriness and discomfort with risk taking can constrain him taking risks associated with capability development. Nevertheless, this high negative affect is fuelled by the worry (also high negative affect) he has about being able to sustain his employees' livelihoods and yet this worry, on another occasion, triggered IT Co's capability development when the company became a managed service provider to improve the cash flow situation within the organisation.

> 'that's what they kept trying to tell you [on a leadership course the owner-manager participated in], 'don't stay in your comfort zone, move out of it, because if you're in

your comfort zone you'll never develop', and it's getting that but you've got to have the bottle to do it and right at this moment in time I could do with a kick up the arse and somebody helping me do that, you know, easy to know it very very very difficult to do it because it's not just my business and my livelihood, it's everybody who I've got here as well' **(IT Co Owner-Manager)**

'I worry sometimes, I mean, I've been in the situation where I've no money in the company, people aren't paying me, you know, I might be owed thirty thousand pounds but I've got, you know, negative in the bank because the companies just aren't paying me and I've been in that situation more than once and I've paid the employees and not paid myself…we turned it round and we try and get the work where they're paying on a monthly basis so we get MRR, monthly recurring revenue, so that's what I'm more into and that's why we've turned the way the business works and what we do and, you know, go in as an MSP [managed service provider] and putting our efforts into SLAs' **(IT Co Owner-Manager)**

In Brakes Co we also found, somewhat surprisingly, that negative affect could potentially be an antecedent of the positive affect supporting capability development. This can be seen most strongly in Brakes Co where frustration / irritation felt by the production director and general manager fuels their positive affect of determination, enthusiasm and activeness. This positive affect facilitates and catalyses capability development. In the following interview extract, for example, we can see how the irritation / frustration of the production director seemingly interacts with determination and activeness which catalyses capability development. Here the production director is responding to the interviewer's question about who defines technical improvement areas and initiates technical innovation projects: -

'Of course, they are all things that I determine. I mean, data are collected but they are not analysed. For example, they know that they use 25,000 tips a year to process brake drums, but no one asks, 'Why are we using 25,000, can we decrease our tip consumption to 12,000 units?' There is no questioning because there is no knowledge. This requires very technical, very advanced knowledge; it requires good analytical skills, knowledge about the micro structures of production… But, here were working with inexperienced colleagues. In some organisations, for example in firms applying Six Sigma, operators initiate projects and engineers work as supervisors. Here, operators do not have such technical backgrounds; they cannot think, let alone do

something about it…We, unfortunately, don't have an adequate technical infrastructure. We are building that. All our engineers are young, inexperienced, and we have to work with them. We are training them. We have a number of labs but they have deficiencies. In a firm of this scale a technical simulation machine is a must, and we don't have it. We will buy it though… We haven't resolved all technical flaws yet. We can increase our effectiveness by 20-25%. We'll have it all settled... We are slowly building up our technical knowledge infrastructure' **(Brakes Co Production Director)**

We also found in IT Org that high negative affect such as the owner-manager's worry, jitteriness and discomfort associated with capability development could play a positive role by ensuring adequate analysis is undertaken in order to assess the viability of potential capability development prior to investment. This plays an important role because the owner-manager feels that the business skills of the technical director are lacking in some respects. Therefore, without the owner-manager's negative affect catalysing analysis of the technical director's ideas for capability development, the technical director's enthusiasm and passion could potentially lead the organisation into unwise capability development: -

'If it was up to me we'd do everything under the sun' **(IT Co Technical Director)**

'I suppose it's like when we're looking at a sales guy he says, you know, I might want a guy who, you know, paying £50,000 for a guy per annum. Fantastic, so to get that he will have to be selling £250,000 worth of equipment before he can make any OTE. Is he going to be able to do that?, you know, (Technical Director) is going 'should be able to'. I'm saying 'yeah but can he and if he doesn't what are we left holding?' So taking it back from a business point of view what can we afford to lose? Because I've got to look at what I can afford to lose because if it doesn't go right well I lose it' **(IT Co Owner-Manager)**

To complicate matters even further, in the case of both IT Co and Merchandising Co low positive affect can potentially also act to constrain capability development. For example, Merchandising Co's owner-managers' contentment at remaining a small business likely impeded capability development in the past: -

'We certainly could have been more dynamic if we hadn't sort of to a degree been happy to remain a small business' **(Merchandising Co Owner-Manager)**

Whilst low positive affect can therefore potentially impede capability development, we nevertheless found that positive affect, and generally (although not exclusively) high positive affect, overwhelmingly catalyses and / or facilitates capability development in the five organisations. Overall though, the findings within this theme show us that whilst positive affect generally supports capability development and negative affect has a more balanced influence, it is far too simplistic to state this as a definitive pattern and we must recognise the nuances and complexities that out lie such a pattern.

Affective Tensions: Inside the Organisation and Inside the Individual

The complex dynamics between positive affect, negative affect and capability development can take on an additional level of complexity when considering the affective tensions we identified within a number of the organisations. We found that affective tension could occur both between organisational actors and within individual actors, and both types of tension could influence capability development.

Emotional tension was found between managers in both IT Co and Merchandising Co. In IT Co this tension involves the passion and enthusiasm of the technical director which drives capability development meeting the owner-manager's apprehension, worry and discomfort that can constrain capability development. In Merchandising Co a somewhat similar tension can be observed in that the owner-manager displays predominantly positive affect such as confidence and optimism which contrasts with his partner's (who is also his wife) apprehension and uneasiness. This tension can potentially influence capability development: -

> 'I think we're almost at the stage where I could write a business plan for major growth and either take on a loan, a re-mortgage, or something like that and go for premises and do a major period of growth. I'm confident I could do the marketing and the sales. What I haven't got the time is doing some planning and make it happen and I'm not sure how comfortable that, being sort of only maybe like ten years away from retirement anyway, that my wife would be with taking on a major change at this stage. That's something that we've touched on but made no firm decisions about' **(Merchandising Co Owner-Manager)**

> 'She'd [the owner-manager's partner] much rather be safe. Well she wouldn't want to stick her neck out and take a big quantum leap forward. She is a director of the

company so in some way at times she keeps my feet on the ground. Other times (it) may be said that maybe she was holding things back. It's a balance and it's been pretty good to us, it's worked quite well' **(Merchandising Co Owner-Manager)**

Power relations may play an important role in navigating such affective tensions to either bring about, or hinder, capability development and this will be discussed in more depth in the discussion section of this paper. We propose that whichever actor wins the affective battle – and this is likely to be the actor with the most power – is likely to have strong implications for capability development, or the lack thereof. Indeed, it is interesting to note that in four of the organisations we researched (Merchandising Co, Brakes Co, Rubber Co, and Oil Co) the dominant actor(s) had stronger positive affect than negative affect and this may have been an important factor in facilitating capability development within these organisations. In the case of Brakes Co and Rubber Co the positive affect experienced by the dominant actors have offset the negative affect of other actors in the organisation. The purchasing manager's lethargy at Brakes Co was evident: -

> 'PM: We don't attend the fairs of my suppliers. I participate the fairs in my industry [automotive component parts industry]. What am I going to the in a dye fair or raw materials fair?
>
> Interviewer: I thought that might allow you to follow of developments in raw materials and things like that.
>
> PM: We already know the participating firms in those fairs. What am I going to find out? If there is a new development, they will come and introduce that to us anyway'

This inarguably stalled capability development in this area with implication for the production department that remained unaware of raw material developments in the wider industry and the opportunities these can offer. However, the general manager and production director are the dominant actors in the organisation, and their positive affect compensated for the purchasing manager's negative affect, thus fuelling organisational development and growth through capability development in other functional areas.

In the case of IT Co the owner-manager demonstrates a much more equal balance between positive affect and negative affect. This reflects the affective tension, or affective ambivalence, located within himself, which itself can have important implications for capability development. The owner-manager sees that stepping away from the day-to-day work of the organisation in order to work on the organisation is important for moving the

company forward in new directions, and therefore, for capability development. Nevertheless, the owner-manager has been struggling to step back from the day-to-day work of the organisation which creates frustration and a feeling of helplessness within him: -

> 'You need to be able to step back to think. You can't think while you're in it [the organisation]. I don't have the time. I haven't got the energy. I need to pull, and the trouble is I know this, I've done it, I know it works, but for some reason I just can't seem to be able to do it again and it's because I'm sucked back into the job and I'm finding it so difficult to leave the desk and working on the job to leave it and work on the business itself' **(IT Co Owner-Manager)**

This frustration is at odds with the comfort and enjoyment he experiences when working on the day-to-day work of the organisation. This, he believes, impacts his ability to step out of the organisation to work on it. Therefore, this comfort and enjoyment can negatively impact capability development in IT Co: -

> 'It's happened to me. It's happened at the moment and I'm trying to pull myself back out of it [the organisation] again. The pressures of staffing levels and business it's meant I've had to jump back into the business. Now that's OK, I find it easy to jump back in, but I find it so so difficult to come back out of it again because it's what I know, it's what I understand, I'm comfortable with it' **(IT Co Owner-Manager)**

Furthermore, IT Co's owner-manager's jitteriness, nervousness and apprehension, which can constrain capability development, seem to be at odds with the alertness, attentiveness and determination he also shows for capability development. Such tension can stall capability development, as will be explained further in the discussion section of the paper. Affective tension can also be found within Merchandising Co's owner-manager.

Management of affect can potentially play an important role in navigating and dealing with affective tensions. In the case of IT Co's owner-manager he appears to demonstrate a failure to manage his affect in some instances. For example, he appears to struggle to overcome his enjoyment and comfort with day-to-day work which prevents him from stepping out of the organisation to work on it. Furthermore, he struggles to overcome his nervousness on some occasions which can prevent him from taking risks involved in capability development. On the other hand, in Brakes Co successful management of affect can support capability enactment. This is since the production director and general manager utilise their own

determination, enthusiasm and activeness to model affective reactions at the level of organisational climate. The general affective climate with respect to capability development is described as lethargic and sceptical by the interviewees, resulting in resistance and unsupportiveness when a new capability is introduced. However, the owner-managers would face this lethargic affective climate with high positive affectivity which over time turns the affective climate into a supportive and collaborative one positively affecting capability implementation and enactment. During implementation, employees would even cooperatively and participatively suggest improvement for incremental capability development and such employee-initiated suggestions has led to consolidation of organisational capabilities, especially with respect to process improvement capability.

The findings above illuminate the complex, multifaceted, and multi-layered relationship between positive / negative affect and capability development. Whilst positive affect tends to catalyse and facilitate capability development, this is not always the case. Negative affect generally has a more balanced influence on capability development, and can itself act as an antecedent to the positive affect that supports capability development. Both inter-actor and intra-actor affective tensions can also play an important role in capability development. Inter-actor affective tensions suggest that power relations between individuals likely influence capability development as well.

Discussion

The Impact of Positive and Negative Affect on Capability Development

Empirical and conceptual work is advancing in management literature over the last decade by showing the importance of affect on strategic choice (Vuori and Huy, 2015), organisational change (Huy, 2002; Maitlis and Sonenshein, 2010), innovation (Akgün et al., 2009) and organisational learning (Scherer and Tran, 2003; Vince, 2001). This paper extends prior work in these fields and explores the role affect plays in capability development in the context of owner-managed small and medium sized organisations. Focus is on the influence of different affective states on owner-managers' decisions to develop certain capabilities to fuel organisational development and / or growth. The findings suggest that affective states influence capability development decisions and processes in organisations, but they do so in too complex a way to afford straightforward solutions. Neither positive nor negative affect

plays a uniformly beneficial or detrimental role in capability development processes, but they can have pervasive effects. As such the insights from our study provide a different angle that counters the temptation in the extant management literature to associate positive affective states with positive firm performance outcomes and inherent destructiveness of negative affective states for firm performance (Elfenbein, 2007).

The insights we raised in this paper extend prior work on the role of affect on cognition and individual / organisational motivational foci that drives subsequent decision-making. In line with previous literature, we found that in all five organisations high positive affect can drive need for growth / development (Huy, 2002). This is most clearly observed at Oil Co and IT Co. Development of new products and services in these two organisations were often accompanied by high positive affect of owner-managers / managers, potentially including alertness, attentiveness, activeness, and enthusiasm. High positive affect encourages creativity and collaborative thinking in these two organisations by leading to creative solutions to complex problems, supporting the argument of George and Brief (1992). Research evidence from Oil Co suggests that such a positive affective state also created an organisational climate securing employee participation and contribution to capability development and enactment. At Oil Co, the process improvement capability was partially built through the creative ideas proposed by first-line employees and a few employees in the marketing department continuously contribute creative ideas supporting the creative marketing capability and new product development capability. It is not solely high positive affect that can facilitate capability development though. In the case of IT Co the owner-manager's trust and confidence (low positive affect) in the skills of the technical director, who is not a family member, creates an internal environment where collaborative thinking happens in sustaining the service development capability.

However, our case study findings suggest that low positive affect is not always beneficial for capability development. For example, Merchandising Co's owner-managers' contentment, which is suggestive of low positive affectivity in the circumplex model, acts as a hindrance for capability development limiting motivation to sense and seize opportunities in the market. This appears to be in line with the argument put forward by Frijda (1986) and George and Zhou (2002) that claims that positive affect can act as a signal that objectives are already achieved and this signal has the potential to make people less perceptive and critical. While this argument has been inconclusive so far and was conflicting with most empirical work arguing for the inherent goodness of positive affect, our paper, by utilising the circumplex

model of affect, has achieved a finer analysis of different types of positive affectivity and their influences.

Research evidence on the influence of negative affect on cognition, behaviour and decision-making has also been contested so far. While some authors argue negative affect motivates behaviour by driving a person to systematically and deeply think about the discrepancy experienced between the current and desired state and to try to find solutions that would alleviate the negative affect experienced (e.g. Hochschild, 1983; Schwarz and Clore, 1983), evidence form the management literature suggest that people who are experiencing negative affectivity will seek continuity and security which might cause myopic decision-making (e.g. Dane and George, 2014; Vuori and Huy, 2015). The circumplex model, as with positive affectivity, allows us to draw differences between different types of negative affectivity and their implications for capability development. In line with the evidence from psychology literature, the cases of Brakes Co and IT Co suggests that negative affect can trigger problem-solving and deep thinking, which in turn can interact with determination experienced by organisational actors to drive capability development efforts that would in the longer-term remove the source of negative affect. However, this is only when high negative affect, including irritation, frustration and worry, is experienced. For example, Brakes Co owner-managers' frustration with the inadequacy of the knowledge base and human capital of the organisation has been the trigger for many organisational development efforts to further develop technical capability. The organisation has invested in human resources development capability which encompassed many organisational routines and practices around recruitment, training and development, performance management and reward. Similarly, the technical problems faced around productivity and efficiency was a major source of frustration for Brakes Co production director, which motivated him to initiate a series of projects to alleviate problems as part of the process improvement capability. At IT Co, the owner-manager's worry with the cash flow problems he was experiencing has initiated him to achieve a more stable and secure internal environment financially. High negative affect experienced has motivated him to think through the causes of the problem and come up with a solution, which in this case was the development of a new service with a markedly different revenue model. Without the high negative affect that owner-managers have experienced, Brakes Co and IT Co may not have demonstrated capability development in these instances.

However, evidence from our study also suggests that negative affect is not necessarily a catalyst for capability development. High negative affect can act as a barrier to capability

development, particularly in the cases of IT Co and Merchandising Co. In IT Co, for example, the owner-manager's nervousness, jitteriness and discomfort appeared to stall him taking risks associated with capability development. Similarly, in the case of Merchandising Co the partner's apprehension, uneasiness and discomfort was a potential barrier to capability development.

Low negative affect, such as lethargy and depression, has also stalled capability development efforts in certain areas in the organisation in Brakes Co, Rubber Co and IT Co. Brakes Co purchasing manager's lethargy was remarkable and in sharp contrast with the other owner-managers in the organisation. When corroborated by the accounts of the production director her lethargy and disinterest seems to stall capability development, especially with respect to introduction and incorporation of new raw materials and component parts that might catalyse new product development and process improvement capabilities. Rubber Co's marketing and sales director was quite depressed of all the hardships that the organisation has faced throughout its history, including a fire and market exit of a major customer accounting for 65% of annual sales at time, and this has made the organisation significantly reactive with respect to marketing and sales. If she was more active, alert, and enthusiastic the organisation could have created or penetrated to new markets, as is the case in Brakes Co, Oil Co and IT Co. On the contrary, Rubber Co is not making any significant move to even attract new national customers. The organisation is growing thanks to its process improvement capability (which makes them price competitive) and its technical know-how in rubber treatment (which makes them more flexible in production). It is important to note that both capabilities contributing to Rubber Co's competitiveness reside in the sphere of influence of Rubber Co's production director who experiences high positive affectivity and is the dominant person in the organisation. This suggests a potential role for power dynamics mediating the relationship between affective state and capability development in organisations, and this will be expanded upon in the second subsection of the discussion below.

Figure 2 below outlines the overall patterns emanating from our findings in relation to the influence of affect on capability development. As with any model, this is inevitably somewhat of a simplification of reality and does not always capture outliers and complexities that we have highlighted above. Nevertheless, these patterns are significantly strong enough to propose this model, which may in turn be tested by quantitative means.
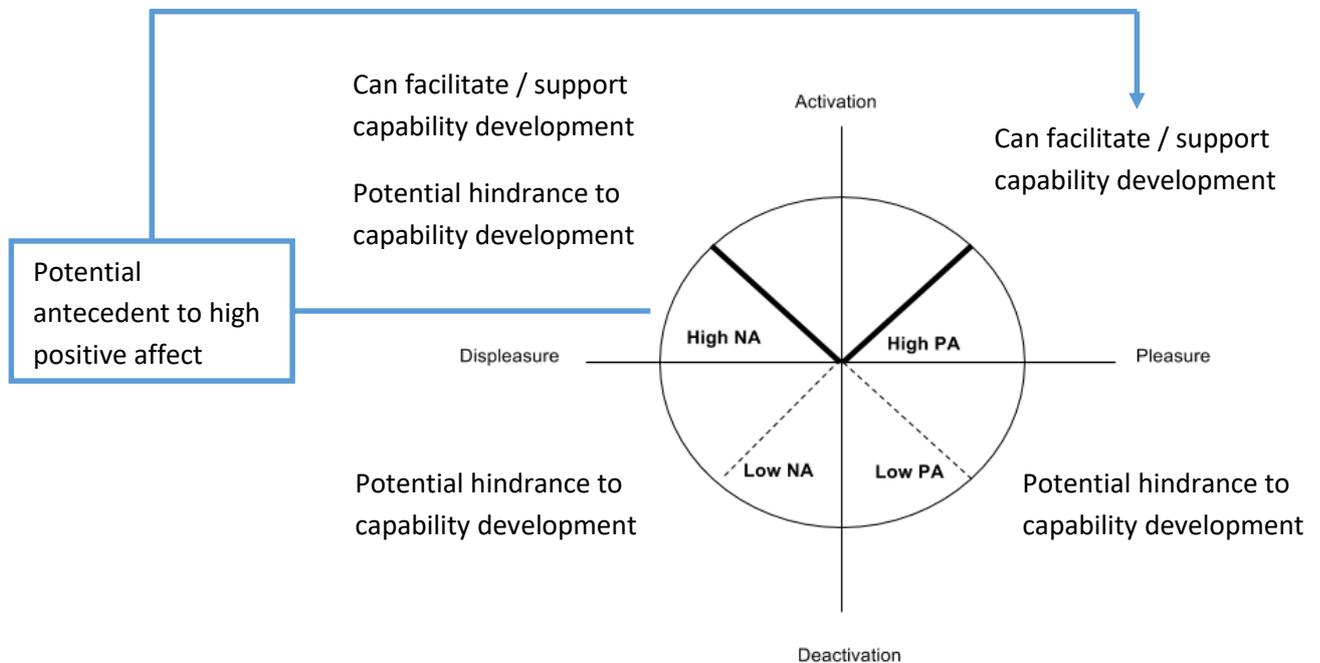
Figure 2. Rotated circumplex model of emotions (adapted from Cropanzona et al. (2003) and Feldman-Barrett and Russell (1999)) and impact on capability development

Affective Tensions, Power Dynamics and Capability Development

It is well acknowledged that power dynamics and power relationships influence decision making and action within organisations. Indeed, Pfeffer (1992: 46) states that "to get things done, you need power – more power than those whose opposition you must overcome". Heaney (2011) argues that the relationship between power and emotions has been missing in much extant theorisation of power and theorisation of emotions. Perhaps unsurprisingly, therefore, our search of the literature identifies that the relationship between power and emotions is also missing in extant capability development literature. This gap in the literature, we believe, could be important to address. This is since the emotional tensions within organisations we studied can, as indicated in the findings section above, influence capability

development and Pfeffer's (1992) assertions about the role that power can play in getting things done leads us to propose that power dynamics and relationships are likely to play a role in determining the outcome that affective tension can have on capability development. In other words, it seems logical to propose that the affect of more powerful actors is more likely to prevail from the affective tension in order to influence capability development.

We encourage future research into this, especially since insights in Brakes Co, Rubber Co and IT Co do begin to offer some initial support for our proposition. In IT Co, for example, the owner-manager made it very clear that he has the final say on capability development. His power here appears to result from his position at the top of the company hierarchy (legitimate power (French and Raven, 1959 cited in Elias, 2008) and his control over scarce financial resources (Salancik and Pfeffer, 1977), and, in the interview extract below, this power appears to enable his high negative affect (including apprehension, worry and discomfort), which can act to constrain capability development, to act as a brick wall that can block the influence of the technical director's passion and enthusiasm on capability development: -

> 'Getting (Technical Director) in(to the company) and working with him we have direction now. Now what I've got to do, I've got to reign him in now and again, say 'look OK but is this the right time and the right place to go?'...I put it down to his vision of where technology's going because he's keeping up with this and he can see its going down this path and this is where it's going to end up and develop, to me looking back and saying 'right, but how do we do this? How can we do this?' You know, 'what's the right method as a company?' because we can all go in, you know, and being from a research background it's so easy to get my head back into the, you know, the fun part of life but I've got to be a realist, we've got to pay the wages, so there are lots of things and lots of areas we can go into but some of them we just say no' **(IT Co owner-manager)**

To date, in the few instances where literature about capability development has incorporated emotions, it has tended to focus on managing emotions to facilitate organisational change (for example, Hodgkinson and Healey, 2011; Huy, 2005). Our proposed line of inquiry into whether and, if so how, the relationship between power and affect can influence capability development, could therefore add important and novel insights.

At the same time, our findings do also add to insights from extant literature about management of affect, by suggest that management of affect can play a role in capability development. For example, in the case of IT Co we found that the owner-manager's failure to manage his affect in relation to stepping out of the day-to-day work of the organisation, and in relation to his failure to overcome his nervousness on some occasions, could act as a barrier to capability development. At Brakes Co, however, we found that effective management of affect facilitated capability enactment. This is since affective mechanisms at play in Brakes Co, evidenced through the emotional display of owner-managers' determination and enthusiasm, resulted in changing the lethargic and hostile affective climate within the organisation into a supportive and collaborative affective climate. This supportive and collaborative affective climate facilitates capability enactment. This suggests, in line with Huy (2002), that individually experienced high positive affect provides the stamina critical to persevere efforts when faced with adversity. Furthermore, in line with Pescosolido (2002) and Huy (2002) it suggests that managers can model affective reactions and this can create the right affective state in organisational members to support capability development and implementation. Whilst our findings provide some insight into the role management of affect can play in capability development, it does not illuminate the mechanisms by which this management of affect takes place. As such, this is an area worthy of future research.

Affective Ambivalence and Capability Development

As explained in the findings section, both the owner-manager of IT Co and the owner-manager of Merchandising Co experienced conflicting or mixed affect within themselves and these different types of affect influenced capability development. These findings relate closely to the concept of emotional (or affective) ambivalence. Emotional (or affective) ambivalence refers to individuals having mixed feelings about a target (e.g. a person, an object etc.) (Pratt and Doucet, 2000). In the case of IT Co and Merchandising Co, this target is generally, and very broadly speaking, organisational change / development.

Pratt and Doucet (2000: 184) argue that "ambivalence is always relational: one feels ambivalence towards something or someone". According to Russell (2003), our observations of ambivalence would thus depart somewhat from a sole focus on core affect (which is object free) and begin to enter the realms of perceived affective quality of a target / object and

attribution of affect to the target / object. Indeed, Russell (2003: 158) hypothesises that 'ambivalence does not occur as core affect but as a perception of two opposite affective qualities of a complex Object". Our findings relating to affective ambivalence are important, nevertheless, since they could have consequences for capability development. For example, such ambivalence can potentially lead to indecision (Sincoff, 1990 cited in Pratt and Doucet, 2000) and non-response (Pratt and Doucet, 2000). Indeed, indecision is alluded to in the following interview extract from the owner-manager of IT Co, where he illuminates ambivalence between his alertness and attentiveness on the one hand, and his apprehension, nervousness and jitteriness on the other hand –

> 'I'd love nothing more now than to have sort of like that one-to-one mentoring again where I could sit with somebody who can just talk around the issues and the problems and where we need to fit and go so I can develop this business, you know, and get more staffing levels, put more employment out there, you know, that's what I want to do but it's so difficult, it's such a risk. Sometimes as a company, as a small business, the risk is big. You've got to understand it and you've got to feel comfortable with it to be able to do it and if you can have people helping you get that feeling and it's in the right, you know, it's got to be right, it's got, it's got to be viable, that's the word I'm looking for, and if it is viable and there is risk in there but it's a viable risk you can be comfortable going for it. I've done it before I can do it again it's just getting that bottle to do it… it's getting that gut feeling and I don't know balls to do it let's say. You've got to have that. You've got to be able to do it and I'm at that stage now I need this, but I'm tired, and I need basically I need help to be able to like get that energy back, that spark back, to do it again' **(IT Co Owner-Manager)**

The owner-manager's ambivalent affect here appears to be holding up a decision about capability development and it seems that without the presence of the negative affect, his positive affect would likely lead to a speedier decision to undertake capability development. Given such potential behavioural outcomes of affective ambivalence, therefore, it thus becomes crucial to consider potential mechanisms for resolving such ambivalence and how this may impact capability development. In the interview extract above, IT Co's owner-manager appeared to see mentoring as a potential avenue to resolving his affective ambivalence by enabling him to reduce his apprehension, nervousness and jitteriness. Nevertheless, our study did not provide in-depth information about mechanisms for affective ambivalence resolution and, whilst potential responses to affective ambivalence are discussed

in extant literature (see, for example, Koch, 1987; Pratt and Doucet, 2000), this is an area of investigation that we would recommend for future research. Nevertheless, we must not underestimate the challenges associated with such resolution, since according to Koch (1987: 273) "ambivalence is resolved when either or both of the conflicting emotions vanish or become negligible…permanently". Since affect can be deeply entrenched within an individual, managing affective ambivalence in the pursuit of capability development could be a sizeable task.

Following our extensive review of extant literature related to capability development and dynamic capabilities, we are aware of no previous studies that identify affective ambivalence as an influencer of capability development. This is perhaps indicative of the lack of research into emotional ambivalence within organizations more generally (Fong, 2006). Nevertheless, since "empirical evidence demonstrates that incidences of unidimensional states, such as pure happiness or pure sadness, are actually quite rare" (Fong, 2006: 1016) our findings that such ambivalence can potentially impact capability development – for example, in the indecision it can create in the owner-manager of IT Co – are important and impactful and worthy of future research to advance understanding in this area.

Conclusion

The role of emotions in organisations has gained much traction over the past three decades. As noted at the outset, recent conceptualisations of organisational capabilities signalled the emotional foundations of the concept, however the issue has not benefited from adequate empirical treatment to date. Our paper responds to the call of Hodgkinson and Healey (2011) for further research into the role of emotions in dynamic capabilities and provides an account of different ways in which affective states can influence the development and enactment of capabilities in organisations (summarised in figure 2 in the discussion section of this paper). Our research also illuminates how power dynamics and affective ambivalence may influence capability development.

Our study makes important contributions to knowledge. In particular, we build on extant literature suggesting a foundational role of emotions in organisational capabilities by articulating the multi-faceted and pervasive ways that different affective states can influence capability development. This is a first step towards breaking the dominantly indifferent or

dysfunctional attitude towards affect in strategic management. We build on extant psychology literature and elaborate on managerial implications to show how a variety of positive and negative affect can influence capability development. The findings propose a much richer and more nuanced understanding, which is markedly different than linear accounts proposed in the literature focussing on beneficial consequences of positive affect and detrimental consequences of negative affect. Furthermore, we contribute understanding of the role that management / regulation of affect can play in capability enactment and development, which builds on previous insights from Hodgkinson and Healey (2011) and Huy (2012).

Acknowledging that affective states can be a crucial driver for capability development and enactment not only yields new theoretical insights, but also informs organisational and managerial practices as capabilities can influence enterprise performance (Helfat et al., 2007; Teece et al., 1997). Practicing managers, this study suggests, in order to enhance their capacity to act more effectively in the face of changing environments, should focus their attention on their and others' affective states. The study proposes that owner-managers' critical reflective practices may be able to contribute to navigating affective barriers impeding development of capabilities in their organisations. This might require managers to pay particular attention to power dynamics in the workplace and model affective reactions to influence the organisational affective climate that can be of crucial importance for capability enactment. By understanding how affective states can influence capability development and enactment, organisational members can strive to build the appropriate organisational routines and practices, to generate affective states conducive to capability development. As such, this study could provide a first step towards informing leadership development and other training programmes aimed at helping owner-managers and top managers to regulate affect and leverage positive affect at the organisational level to develop their organisations strategically.

Limitations and Future Research

One potential limitation of our study is that affective states were inferred from individuals' retrospective accounts provided during interviews with them. This could have affected the accuracy of the insights gained. Furthermore, these retrospective accounts tended to cover successful capability development in the organisations, which may have led to an underrepresentation of negative affect within them. However, this may not be the case since extant literature suggests that negative emotions are more easily recalled by individuals.

Future research though may benefit from using alternative research methods to overcome issues around accuracy and recall. For example, using non-participant observation to observe affect and affective dynamics in action could potentially generate increased understanding and accuracy. Furthermore, in future studies a greater depth of understanding could be gained by focussing on affective dynamics involved in the development of just one capability in one organisation rather than taking a broader perspective across different organisations and different capabilities as was the case in our study.

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