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THE INTERFACE BETWEEN ORGANIZATIONAL CAPABILITIES AND LEADERSHIP: HOW LEADERSHIP RELATES TO THE PROCESS OF RESPONDING TO A CHANGING ENVIRONMENT THROUGH DYNAMIC CAPABILITIES

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Abstract

The purpose of this study is to observe the process of responding to a changing environment through dynamic capabilities. The study is focused particularly on cooperation at the organizational site level and on leadership. Dynamic capabilities include the inherent capabilities of a firm's executive management as well as the organizational capabilities process including leadership of the firm. The factor of leadership is important both theoretically and empirically, as a microfoundation of dynamic capabilities as organizational capabilities. The framework of the study shows that dynamic capabilities, organizations, and leadership have a close theoretical relationship. To demonstrate that the theoretical relationship was also empirically valid, a case study of a Japanese firm is referred to describe the interface between leadership and the environmental adaptation process in an actual cooperation situation. The findings are that shared leadership and situational leadership facilitate the coordinated work in the activity process and play a significant role in making use of organizational capabilities. The research implies that we must reconsider the process of manifesting organizational capability in today's Japanese companies from the aspect of coordinated workings of each organizational member and leadership rather than the inherent capabilities of a firm's executive management. The originality of this research is that it highlights shared leadership in the organization's adaptation process as strategic factor both theoretically and empirically as a microfoundation for dynamic capabilities of the firm.

Keywords: Dynamic Capabilities, Shared Leadership, Situational Leadership, Cooperation Processes, Site Organization

1. Introduction

Dynamic capabilities of the firm have been conceived primarily around the individual-level, as the cognitive abilities of top management (Helfat and Peteraf, 2015). In recent years, however, some scholars have challenged this notion, arguing that dynamic capabilities include the organizational capabilities of the firm as well as the inherent capabilities of a firm's executive management (Teece *et al.* 1997; Eisenhardt and Martin, 2000; Teece, 2007a; 2009; Argote and Fahrenkopf, 2016).

This study does not focus on the individual, but instead on the microfoundations of dynamic capabilities as organizational capabilities and on organizational cooperation at the site level to better understand these microfoundations. Furthermore, I would like to focus on the role of leadership as an important factor in that cooperation.

1.1. Site Organization as a Microfoundation of Dynamic Capabilities

Dynamic capabilities are a firm's abilities to construct, integrate, arrange, and rearrange its internal and external resources in order to adapt to and manage environments undergoing rapid change, such as those resulting from technological innovations and market fluctuations (Teece *et al.* 1997). These capabilities also include the ability to actively change the environment in order to cope with the environmental changes (Eisenhardt and Martin, 2000; Teece, 2007a). Dynamic capabilities have further subdivisions: sensing, seizing, and transforming (Teece, 2007a).

Until now, dynamic capabilities have been treated as inherent abilities possessed by business owners and top management professionals, and the role of organizational capabilities, including at the onsite level, has not drawn much attention. However, according to Teece (2007a), dynamic capabilities are capabilities of not only top leaders, but also the entire firms. This is because when a firm—not just its leaders—responds to environmental changes, many adjustments must be made onsite, and those adjustments require multiple decisions and decision makers (Barnard, 1938).

Therefore, regarding dynamic capabilities, in addition to the abilities of top managers, the site's organizational capacity is also important. In particular, Teece (2007a) highlights the importance of decision-making processes and activities that enable the organization to adapt to circumstances (such as decentralization) at the site level. These include the rolling up of information to top management when changes in technology or in the market are forecasted, in order that managers may reliably seize the opportunities that result from the changes.

1.2. The View of Leadership in Dynamic Capability Microfoundations

When focusing on organizational activities at the site level, as microfoundations of dynamic capabilities, the leadership¹ that manages the actual site plays an essential role. According to Teece (2007a), the capabilities that raise a firm's technical adaptability (or production efficiency) originate in organizational structure, systems, and values. However, in the process of a firm adapting to a changing environment, higher orders of meta-capabilities are needed to reorganize the organizational structures and systems themselves. Evolutionary adaptability is a meta-capability and is also a dynamic capability. It not only applies to top management, but can also characterize the organization as a whole.

An organization's onsite staff, in particular, can sense subtle environmental changes and predict other changes that are likely to occur in the near future. They must respond enterprisingly and nimbly with respect to the state of cooperation in which they have been placed. In order to encourage this kind of adaptive behavior in an organizational unit, according to Zaccaro (2001), leadership function at the site of organizations is crucial, and leadership defines collective outcomes and strategies each time, executes the strategies, and organizes units for boosting outcomes.

¹ Regarding dynamic capabilities at the company level, Teece (2007a) introduces many microfoundations that combine the three properties of sensing, application, and reorganization. Leadership is only alluded to within the construction of loyalty and commitment as one microfoundation of application. Naturally, the concept of leadership alluded to in this study is broader than the concept of leadership that boosts commitment, as intended by Teece (2007a). This concept implies the operation of influence that facilitates the transformation of cooperation itself and the creation of knowledge, in addition to reliably executing everyday operations.

1.3. Purpose of Research and Research Question

Considering this background on dynamic capability microfoundations, this study will focus primarily on site-level organizational cooperation as the dynamic capability microfoundation for organizational capabilities, and especially on leadership as an important factor in that. Is leadership a useful factor in this context? In particular, what is the relationship between leadership and adaptive organizational processes through dynamic capabilities?

To settle these questions, this paper will first theoretically explain the close connectedness between dynamic capabilities, organizations, and leadership. Next, to demonstrate that the theoretical relationship is also empirically valid, we will feature concrete examples and demonstrate the environmental adaptive process and the leadership interface² in an actual cooperative situation. Finally, we will demonstrate that the factor of leadership is important both theoretically and empirically, as a microfoundation of dynamic capabilities as organizational capabilities.

2. Literature Review

2.1. The Microfoundations of Dynamic Capabilities as Organizational Capabilities

Dynamic capabilities are a firm's abilities to construct, integrate, arrange, and rearrange its internal and external resources in order to adapt to rapidly changing environments, such as those characterized by technological and market fluctuations (Teece *et al.* 1997). Furthermore, they are capabilities for adapting to an actively changing environment (Eisenhardt and Martin, 2000; Teece, 2007a).

These kinds of dynamic capabilities can also help to establish a firm's competitive edge through the attainment of long-term, as opposed to short-term profit. To analyze these capabilities, it is necessary to consider in detail the organizational processes and activities that are involved in the creation of outputs like new businesses, products, and strategy systems. As mentioned earlier, Teece (2007a) categorized dynamic capabilities into three subdivisions: sensing, seizing, and transforming. The following is a more concrete explanation of these processes.

In the first, "Sensing Opportunities and Threats," an entrepreneur or manager must understand how to interpret new incidents and changes in an environment of uncertainty. He or she must understand which technologies to pursue and which market segments to target, and information obtained from these observations is interpreted and incorporated by top management, after which it is reframed and embedded in the business processes of middle management.

In the second, "Seizing Opportunities," the entrepreneur discovers new opportunities within the threat, invests in development and commercialization activities, and must select and create a business model for defining the firm's commercialization strategy. In this way, he or she can find the potential for a competitive edge.

In the third, "Reorganization and Transformation," entrepreneurs recombine and reorganize assets and organizational structures to make the discovered competitive edge sustainable. To avoid undesirable process dependence, they expand asset orchestration, including by redesigning routines.

The above adaptation process—a result of dynamic capabilities—is not executed by top management alone. In reality, these results manifest through the integration of efforts on all levels of an organization, including higher and lower level managers and onsite staff. In this sense, dynamic capabilities could also be said to be organizational capabilities.

² According to the Kojien dictionary, an interface is a connective section in which a device or apparatus corresponds with and controls other devices or apparatus. In this study, the word "interface" implies interactions at the contact points and boundaries of several different things and attempted to depict an organizational unit's environmental adaptation dynamics in the boundary of the two influence operations of leadership and an organizational unit activity.

2.2. Site Organizations Manifested by Dynamic Capabilities

When strengthening a company's organizational capabilities, such policy as building strategy making abilities through improving the management mechanism together with personnel and accounting is suggested. Another solution is that top managers make innovative changes in management to build organizational capabilities. M&A is an example of such corporate restructuring. Many strategic specialists and senior managers who are uninterested in particular businesses make radical strategic changes, such as, in many cases, separating strategy-making process and task execution processes.

However, the present study explores the possibilities that are different from a top-down strategic formation process that separates strategy from everyday tasks: it is an approach that is not independent on-site coordination and strategy-making but rather recognizes and interprets the environment through observing coordinated teamwork of each member of the organization to formulate a strategy. In fact, as Nonaka and Takeuchi (1995) show, the coordinated process with the middle-level and on-site workforces, and product development based on the combination, share, and inheritance of knowledge of them has been the source of high competitiveness for Japanese companies since the 1980s. Thus, the principal actors who create new knowledge through combining accumulated knowledge and various informational resources gained through daily task executions are the middle-levels (Nonaka, 1988).

As mentioned above, dynamic capabilities are not only applicable to top management, but are organizational capabilities within the entire organization. They can be exhibited also by the onsite staff. In general, there are two ways in which a firm's organizational units sense changes in the environment: First, top management may directly sense threats or changes in the environment. Next, top management indirectly senses threats or changes in the environment, through staff in individual organizational units.

In some cases, the top management directly senses threats and opportunities produced by environmental changes. But even in cases where top management does not sense subtle changes in markets or technology, there are times when staff working onsite will sense them as a result of their networks with customers and clients.

Above all, according to Teece (2007a), in organizations with greater onsite autonomy, staff are able to anticipate market trends and technological developments without fail. Therefore, it is less likely for top management to miss the changes or be delayed in responding to them (Teece, 2007a, p. 1323). Teece (2007a) says that through organizational decentralization, top management can respond more sensitively and quickly to new technology, customers, and markets. He also points out the importance of going beyond conventional organizational boundaries during exploratory activities and defining organizational participants in a broader sense, to include customers and clients.

In this way, dynamic capabilities related to taking the appropriate action in response to environmental changes and to sensing opportunities for new markets for products and services are not the entrepreneurial capabilities of top management alone, but are also capabilities relevant to the entire organization, including onsite staff.

This onsite organizational cooperative process does not stop at the mere execution of strategies. The cooperative process, along with the onsite implementation of strategies, also causes the organization to tend towards autonomous and environmentally adaptive behavior. Coming into contact with the external business environment, perceiving subtle changes in the environment, and taking action in response to those changes depends on the full range of independent actions of all onsite staff members.

In this way, onsite implementation of strategies allows for the sensing of subtle changes in the environment, which then become an opportunity for top management to exercise organizational readjustment of the firm's communication and information interpretation systems. The fact that the entire organization's dynamic adaptation response process happens through the formation of a mutually adaptive strategy between onsite organizational units and top management has been highlighted in many strategic management studies. One such study was conducted by Burgelman (1983a, 1983b), who analyzed the organizational process that allows for the incorporation of new projects into overall firm strategy, and another was by Mintzberg

(1978), which indicated an emergent model in which strategies are formed as a result of onsite implementation. Furthermore, Nonaka (1988) showed, theoretically and empirically, the mutually adaptive strategy formation process between the conception and execution of strategies at Japanese firms.

3. The Theoretical Framework: Relationship between Dynamic Capabilities and Leadership

3.1. Positioning Leadership in Organization Activities Onsite

The adaptive activities of organizations derive from a self-directed cooperation process, that is, from the self-organization of all staff members, who are individually learning, creating, and changing cooperation and adjustment standards, one by one. Self-organization arises from cooperation and learning, and then the environment itself is redefined through cooperation, with the adjustment and integration standards of cooperation themselves being transformed.³ This state of organizations is a state in which the necessary and sufficient conditions for the establishment of an official organization (shared goals, intention to cooperate, and communication) are always fulfilled, as described by Barnard (1938). In short, this is a state in which the communication, the shared goals, and the intention to cooperate in an organization are connected in a balanced way.

However, when the shared goal has been accomplished, the organization may disappear. In order for an organization to continue, it must create new adjustment standards in response to changes in the environment as soon as the shared goal has been achieved, and then its members can accept those new standards. Consequently, organizations can be said to self-reform and self-transform through cooperation, and we can understand that one expressive process of dynamic capabilities is that they allow for repeated and autonomous creation and recreation.

However, these autonomous dynamics are a precondition for establishing an official organization and, next, for sufficiently maintaining it; in this sense, they are the so-called ideal kinds of organizational activities. In actual cooperation, an organization's self-transformation can sometimes fall into a negative loop. Immediately following establishment, organizations can easily lose the balanced connection between the three factors: shared goals, intention to cooperate, and communication. Organizations, then, are always at risk of dismantling and breaking down.

If an organization completes its activities in a short period of time, there is not much of a need for further carrying on of functions other than the shared goals, the intention to cooperate, and the communication, according to an analysis of organization phenomena. However, if an organization is intended to endure for a long time, it must continue to update itself at the same time that its organizational goals are attained.

Additionally, in the cooperation at the level of each organizational unit, there are many difficulties that hinder the processes of integrating the knowledge that accumulates through cooperation and of then relating it to the strategic context of the entire organization. For an organization to demonstrate dynamic capabilities, it must continually and effectively incorporate the knowledge and skills of each member as a collective action. What is needed, as an essential condition for the organization's cooperation to function effectively, is the function of leadership (Hackman, 2009; Yukl, 2012).

3.2 Dynamic Capability Theory and Leadership Theory

The organizational processes that form the microfoundations for dynamic capabilities had not been sufficiently clarified until now. How is leadership, which has a significant influence on these organizational processes, related to dynamic capabilities? There are also almost no previous studies on this topic. Nevertheless, in addition to the formation and execution of dynamic

³ From the organizational concept indicated by Barnard (1938), organizations are shown to autonomously adjust and cooperate as a condition of functioning normally. In particular, I would like to point out that the self-organization mentioned in this study is a concept that includes the creation of value that amounts to adjustment standards.

capabilities happening through organizations' cooperative processes, it is conceivable that leadership and dynamic capabilities are also closely related (Teece, 2007b).

According to Bryant (2003), the leadership of each community, which encourages the formation of communities as a starting point for "location" and sustainable growth, is important for speeding up processes of knowledge creation such as the sharing, the creating, and the acquiring of knowledge. Dynamic and varied strategic contexts are shared through the formation of stratified "locations," and new knowledge is created that is oriented towards innovation through group dynamics.

To put it more concretely, the knowledge assets that comprise individual people's skills and know-how are accumulated within a group. Leadership, through motivation-building, support, coaching, and mentoring is important for preparing the organizational environment and implementing information-creating activities to facilitate these processes (e.g., Marquardt, 2000). Furthermore, in modern day situations, in which the creation of information is emphasized, it is possible that cooperative and dispersed leadership throughout an organization can function more effectively than heroic leadership, involving only top managers in an organization.

Teece (2007b) stated that in knowledge-based organizations, each member of the organization should demonstrate leadership, and that the divide between the role of manager and the roles of other members should become less and less clear. In this way, there could be said to exist a close mutual relationship between a leadership style that facilitates the creation of information and the dynamic capabilities as organizational capabilities, which are responsive to environmental changes.

In the discussion of this type of leadership, it is important to emphasize the following two points. First, leadership that facilitates the process of creating information is premised on "Situational Leadership." Next, in addition to leadership that steadily attends to everyday affairs, it is possible for a shared type of leadership to function that facilitates the creation of activities for autonomous knowledge.

3.2.1. Situational Leadership

The situational leadership approach holds that different types of leadership will be effective in different situations and that there is no one absolutely effective type of leadership. That prototypical discussion, even within leadership theory discussions, is the leadership contingency model of Fiedler (1967), who revealed that interactions that arise in relationships between situations, followers, and leaders influence the effectiveness of leadership. According to his contingency model, the personality of a leader and his or her ability to regulate situations will influence results. Of these, the ability to regulate situations is determined by a combination of the relationship between the leader and followers, the topic, and the leader's status.

Furthermore, according to Hersey and Blanchard (1977), the situational factor that has the greatest influence on situational leadership is the followers' "level of maturity," which comprises the followers' motives and abilities. Depending on the combination of situational factors (the relationship with followers, the task designation, and the followers' maturity level) the style of leadership will be one of the following: authority delegation leadership, participatory leadership, persuasive leadership, and instructive leadership.

Leaders that adapt to situations have commonalities with leaders that facilitate the information creation process. For example, Gratton *et al.* (2007) also state that to facilitate information sharing in teams engaged in multiple issues, a leader must change their leadership style as issues arise and as activities progress. This kind of leadership plays an important role when an organization is responding to environmental changes through the use of dynamic capabilities as organizational capabilities.

3.2.2. Shared Leadership

Today, there is a demand for leadership to be more equally distributed up and down the hierarchy. This need is due to some forces. First, seniormost leaders may not possess sufficient information to make highly effective decision in a rapidly changing environment. That is why managers down

the line or each member in team-based organizations on site-level may be more highly informed and in a better position to provide leadership. Second, the change of the environment is so fast, it is likely for top management to miss the changes or delay in responding to them. Organizations cannot wait for leadership decisions to be pushed up to the top for action. Third, increasingly, organizations are hard-pressed to possess various leadership skills and knowledge necessary to adapt to dynamic and global marketplace.

Shared leadership has largely to do with that shifts in how decisions in organizations are made or how organization members respond enterprisingly to the state of cooperation in which they have been placed. Thus, shared leadership is a dynamic, interactive influence process among individuals in groups for which the objective is to lead one another to the achievement of group or organizational goals or both (Pearce and Sims, 2002; Carson *et al.* 2007).

One of the characteristics of shared leadership is the collective leadership. This does not mean leader-centered leadership that those in the leadership position enhance organization effectiveness; it is, rather, distributed leadership or shared leadership regarding deciding the direction of collective efforts among team members. Depending on the situation, a member with expertise and relevant experiences may function as a leader. However, it will still be understood as the effect of individual leadership process on the task level (Pearce and Sims, 2002).

Although this distributed membership has been regarded as important concerning participatory decision-making by members (Yukl, 2012), it can be seen as having essential functions about leadership that forms collective activities strategically. It is not easy for middle managers or leaders on the staff-level who are primarily responsible for advancing and optimizing daily tasks, to find a strategic meaning in team activities. One of the ways to fill this gap is to use the skills of members of the company (Ancona *et al.* 2007).

Leadership has been taken collectively in places with high expertise, visions, new ideas, and serious efforts. Thus, finding ideas for new actions and being on the lookout for both official and unofficial networks will not only help suggest ideas for increasing efficiency of, but also for giving a strategic significance to, the team activities. This is especially true for team organization leaders who have networks outside their company. As Day *et al.* (2004) show, this enhances both efficiencies of organization activities through group learning towards achieving goals, and creativity through the processes to cooperate in interpreting information and defining meanings where a new environment will be recognized in official and unofficial communications. Thus, shared leadership bridges two types of leadership. One focuses on executing business smoothly along with the team goal. The other is the leadership to reach out to external actors to strategically form achievements and knowledge of group-level activities.

3.3. The Theoretical Relationship between Dynamic Capabilities, Organizational Activities, and Leadership

Leadership is generally defined as “a whole group function of maintaining set standards of members’ conduct and attitude while working toward achieving a group goal and the process of influence that acts reciprocally within the group” (Bass, 1990, p. 20). In other words, leadership is the “influence” that brings about the achievement of goals among group members.

From the perspective of organizational continuation, growth, and development, the following are necessary managerial abilities: providing and maintaining communication systems, ensuring the intention to cooperate as a component of the organization, and formulating and specifying goals (Barnard, 1938). In other words, leadership is a process of influence that skillfully facilitates the above roles.

It also has more modest and effective organizational functions (in response to cooperational aspects and organizational contexts) that keep members’ conduct at a preferable standard toward achieving organization goals and that operate reciprocally between members. If leadership acts on organizational goals and the intention to cooperate in locations with specific kinds of cooperation, a slight change to the proportion of that influence will cause the organization’s activities to change.

In this case, what kind of leadership is effective in organizational sites’ cooperation processes such that microfoundations of dynamic capabilities are likely to form? From studies up

to now, it has been understood that many organizations learn while implementing strategies under whatever circumstances they are placed, and they adjust their activities as they constantly read and reread the environment. When each organizational site develops activities to respond to the environment, and when these activities can be considered as the basis for dynamic capabilities (as organizational capabilities), it is thought that leadership is working in a varied way in response to the situation.

In particular, as part of recognizing and responding to environmental changes through dynamic capabilities, if the organizational site arrives at the process of creating new knowledge, it is thought that dispersive or shared team leadership is functioning well.

From studies of shared leadership, it has already been suggested that leadership and the organization's activity processes are intertwined in enhancing collective performance. First, leadership is observed influencing organizational performance. However, as cooperation progresses, leadership and the cooperation process influence one another as they are constrained by accumulated results. Furthermore, as the integration of leadership and the cooperation process progresses, the boundaries between the two become indistinguishable.

In the above way, when an organization responds to environmental changes through dynamic capabilities, even though the leadership style most effective for the relevant organizational circumstances will differ depending on the situation, we can say that shared leadership is effective in facilitating an organization's knowledge creation process. To demonstrate that this theoretical relationship is also empirically valid, I would like to feature the following specific case example.

4. Case Study for Empirical Validity

4.1. Research Method

Because no judgments can be made without performing interviews of actual cooperation process, it is thought that case study research is an appropriate method to analyze the aforementioned research subjects. The improvement spiral for organizational capability processes and leadership takes place in a circle of the actions, coordination, and cooperation. This is not produced through relationships of one-on-one responses; it is perceived as a relationship of mutual improvement. In addition, the effects caused by both parties are not one-way, but are spread in a bidirectional manner.

Bearing in mind the nature of the study objective for this research, important conditions for determining the investigation method are being able to understand the dynamic processes of organizational activities, and furthermore being able to diligently analyze the nature of self-development-type organizational activities, in which organizational actions produce further organizational activities. Accordingly, a qualitative method is used for this research.

In addition, the subject of this research is to explore the relationship between organizational knowledge creation processes and leadership types is mutually improved via an investigation on the actual situation of team activities. For that reason, it is necessary not just to specify variables, but also to learn how they are related. Accordingly, a qualitative method via a case study was adopted as the survey method utilized in this research.

In a case study, various types of data collection methods—including both qualitative and quantitative methods—are used on one or multiple subjects. This method is for gathering data in a focused way, and makes it possible to perceive details regarding and an overall image of the subject(s), more so than any other methods (Yin, 1994).

4.2. Sequence of Events of Overseas Business Team Activities

Below, we will conduct a case analysis of the activities of an organization (the "overseas business team") launched by food product wholesaler Company X to conduct import and export operations for its business, which is centered on rice. This case study is based on interviews with Company X's overseas business team activity participants and secondary sources. The semi-structured interviews were centered on the team leader, and included five people in total including team

members and sales department members. Interviews were conducted in five periods from February 2013 to June 2014.

Company X is a trading company that was founded in 1950 and specializes in food products. Its principle occupation is domestic distribution of rice, and it is the largest company in its industry in Japan. It has gathered manufacturing, processing, and logistics functions in addition to supply and sales within its group, and it conducts holdings management through its head office, several subsidiaries, and associated companies. Its annual sales are over 182.4 billion Japanese yen (as of March 2017).

4.2.1. Start of an Overseas Operation Establishment Team

At Company X, a search activity overseas by a couple of people began around 2008, but it was initially all focused on import. In May 2010, Y Import Promotion Conference (henceforth, Conference Y) was founded by multiple companies in Japan including rice producers, considering the risk of continuing an overseas operation alone. It aimed to gain a subsidy but ended in failure. Since then, Company X has been monitoring its industry and its management situation, and it has started to advance into overseas markets in earnest as a management strategy for the next generation. Company X has set up local subsidiary bases in the US, China, and Hong Kong for exports of Japanese rice and has been planning for overseas expansion.

In September 2010, Company X commissioned a team of eight people to investigate a course of action for overseas commercialization. The team members were one head office staff member, Team Leader A, four overseas managers, one food service manager, and one product development manager. In this team activity, the head office executive was the supervisor, but the actual person conducting the business was team leader A. The head office executive belonged to a family of Company X, and he hoped to spread rice abroad.

The members' tasks were separated into overseas, food service, and the entire team discussed product development, but the search for overseas operation. All members could communicate in English. Also to an individual task, members in charge of overseas are responsible for exports from Company X and business conducted at Conference Y. Two members in charge of overseas business are especially responsible for direct trade, and they have specialized knowledge like customs formalities.

Members in charge of food service developed overseas food service, and they conduct business like satellite shops to spread Japanese food abroad and to franchisers. In addition to these individuals, eight to ten members of the sales department participated in the activities, and after the local subsidiaries were founded, resident employees and local staff also began to participate (Figure 1).

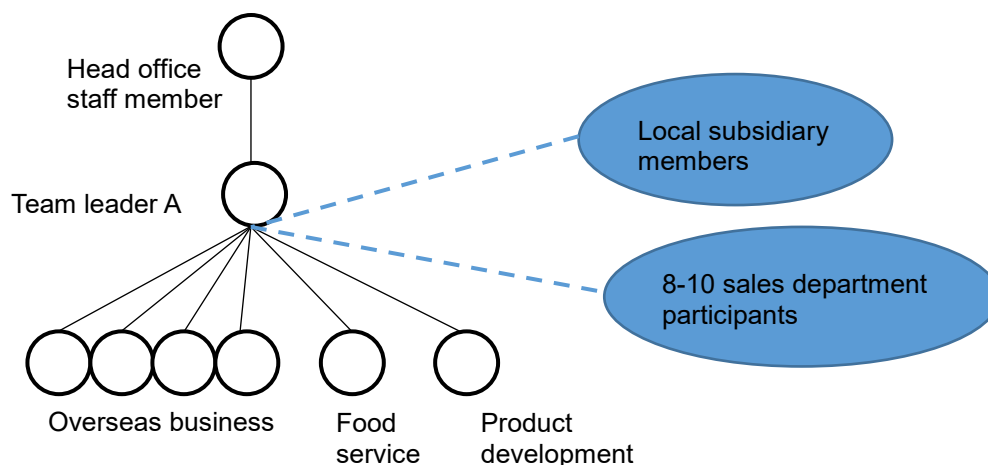


Figure 1. Overseas Business Team

Source: Author's own preparation

A large quota was given to the overseas operation establishment team to have the entire stock of rice produced for export contracted and exported. It is said that the amount to be exported annually by Company X was around 1,000t⁴. Also, activities by Conference Y must be brought together, and the business must be entrusted once every year and collect subsidies. Although there are these two large quotas, there were not detailed individual goals. O and P commented on the team activity at the time as follows.

After founding the overseas operation establishment team, the team explored to industrialize the rice export, and local production sales activities were commenced at local bases of China and United States as a foothold for overseas expansion. However, there was no one in the team experienced in export business, and the team had initially been “working from scratch” (in charge of overseas business). There was no company in the rice industry doing a full-scale overseas business, so the team activity to industrialize export was done “without any model” (team leader A). Members learned the rules and know-how of trade through mistakes in export registrations.

4.2.2. Activity of a Team Related to the Establishment of a Local Subsidiary in China and United States

The overseas business team explored local bases in China and the US as footholds for a 2011 overseas expansion and also created initiatives for export commercialization. At the factory at the Beijing local subsidiary, Company X conducted rice and food product manufacturing and sales activities based on the business model it had developed in Japan, which was a model of transporting unrefined brown rice from producing regions, polishing it at plants close to the area in which it was to be consumed, and then selling it immediately.

However, sales of freshly milled rice did not grow much at all. The reasons given were that “we had not fully grasped the differences in food culture and the sense of value toward rice quality” and that “differences in the business culture were more of an obstacle than we expected, and we could not survive local price competition” (Leader A).

4.2.3. Activity of a Team Related to Build Networks with Local Businesses

After that, the overseas business team started to proactively research expansion into the Asia region, which already had significant trade relations with Japan. The overseas operation establishment team began research for advancement into Asian areas with many exports from Japan. In addition to the tendency of the business destination of Company X, members will examine subjects like major local companies in Asia, the synergy effect in business with local firms of Beijing and Chengdu, land price, and the cost of placing a warehouse. These researchers by the members are from discussions in the office, but it was conducted by members visiting the site and building networks with local companies. Candidates that arose through this were places like Hong Kong and Singapore.

The overseas operation establishment team strengthened networks with business destinations and local companies in Singapore. Moreover, export deals became a daily business routine of members, and it was conducted quickly and smoothly. They participated in entrusted sales, market development business, and PR activities at Y Committee, and funds for overseas development were collected steadily.

From the failures of production and sales activities at the local firm of Beijing, the importance of merging with the local culture became a common understanding in the team. Thorough research was repeated between members of trends in the overseas market, relations with local firms in Beijing, Chengdu, and in the United States, and relations with business

⁴ Rice that was produced separately from rice as staple food could be stocked at a cheaper price if it is requested by June each year. Therefore, the rice produced with a request as something different from staple food and not something already circulated in the country must be certain during export not to mix with those for staple food.

destinations. On-site information was collected as well for export and import forms of each country and major local companies. The team activity and overseas development were reviewed through these activities, and the team proposed to establish a local firm in Hong Kong but to trust major local companies with the management of food service business. In other words, a franchise model was proposed to make local companies sell the rice supplied by Company X.

4.2.4. Team Breakup

In May 2013, team members were shifting within the overseas operation establishment team. The team leader changed, two members in charge of overseas were transferred to another department, and a new member joined the team. As roles in the team were being reviewed, food service and product development sections were dissolved, and members were transferred to other departments.

In addition, after April 2014, the overseas operation establishment team was raised to the overseas department with the team becoming converted to a corporation. Currently, it aids management of overseas general affairs department PR section to the central government and sales of subsidiaries.

The details of overseas business are being reviewed as well. A prospect of internal distribution and a part of import activities to export business was made as a strategy of Company X. In other words, other than searching for new overseas bases, a full-scale overseas development taking into view direct trade and triangular trade became included in Company X's main strategy. Regarding the local firm in Beijing, arrangement and reorganization like selling the production section was decided since the activity style of polishing rice in the factory and selling had not functioned well.

4.3. Team Cooperation and Leadership

As soon as the team was formed, the members engaged in exploratory activities around rice export commercialization. They also initiated local production and sales activities in local bases in China and the US as footholds for the overseas expansion. However, no team members engaged in export operations.

Team activities at the start were in "exploratory status" (overseas management members). In the rice industry, there were almost no companies developing full-scale overseas operations, and the team's activities for export commercialization were progressing "without any role models" (Leader A). In this overseas environment, which was completely different from the Japanese domestic environment, team members repeatedly made mistakes due to procedural imperfections in exports, and they had to learn through trial and error the rules and know-how for conducting the appropriate business transactions. According to the leader and other members, all desks were used as locations for day-to-day discussion, and through the leader's "considerable pressure" (Leader A), task assignments with fixed deadlines were strictly enforced.

Although the leader sternly assigned task assignments and deadlines to team members, the leader also "learned from members' research" (Leader A) and said that there were no special assignments of specific work content. When assigning work, the leader discussed the significance and potential of tasks with team members. According to the overseas staff members, "an atmosphere of needing to persevere" prevailed, but "members also got approval to at least try the areas that members proposed." In other words, through this kind of leadership, the team's activities were autonomous and dispersed.

Furthermore, after failing to bring Japanese business models into China, team members did extensive research on overseas market trends, the relationships between the local subsidiaries in Beijing, Chengdu, and the US, and the company's relationships with its business partners. They also advanced local data collection and analysis on import and export trends in each country and influential companies in each region. As a result, they realized that globalization had not progressed as far as they had originally thought in terms of food culture and services, and they also saw the importance of being immersed, as a team, in the local culture. These realizations became part of the team's new common knowledge.

According to the leader, these kinds of activities began in the second year after team activities began. At that point, the leader was picking up detailed knowledge from team members, and the exchange of information naturally progressed as members took on the task of leadership themselves. Finally, the team leader grasped members' personal concerns and thoughts through communication and made internal and external adjustments that would be incorporated into their work routines as much as possible. Furthermore, at that point when distributing work, the leader discussed its significance and potential with team members.

Table 1 summarizes the relationship between leadership and cooperation at each stage of team activities.

Table 1. Relationship between Cooperation and Leadership at Each Stage of Team Activities

	Team cooperation	Leadership
Early phase	<ul style="list-style-type: none"> • had little career experience • had to learn through trial and error 	<ul style="list-style-type: none"> • The leader gave purpose to each members' daily work. • Team leader A's "considerable pressure" on task assignments
Middle phase	<ul style="list-style-type: none"> • failed to bring Japanese business model into China • started to proactively research expansion into Asia region 	<ul style="list-style-type: none"> • inspired improved cooperation within the team
Latter phase	<ul style="list-style-type: none"> • realized the importance of being immersed in the local culture • proposed the head office to develop a new business model 	<ul style="list-style-type: none"> • The exchange of information naturally progressed among members. • Advanced knowledge accumulated within the team. • Autonomous activities were expanding.

Source: Author's own preparation

4.4 Findings and Implications

From the above case, we can see that a leader's style has a significant direct influence on the results of cooperation in the early stages of a team's activities. As Hackman and Walton (1986) have demonstrated, a leader's chief responsibility is to indicate the path for achieving a goal. Leaders set goals, supply research, and remove the causes of obstacles while raising the productivity of the team. Leaders also play the role of mediating between the team and the outside environment. Furthermore, leaders skillfully observe the actual activities while giving feedback on suitable results, and they apply revisions between the plan and the goal as needed. These things were also observed in this case study.

4.4.1. Implications

In this example, leadership not only directly affected the performance of the organizational unit, it also facilitated effective interactions between team members through the leader's intervention in various cooperative processes. To put it more concretely, leadership exerts a significant influence on members' interactions (recognition, incentives, emotions, and adjustments). Leaders also encourage members' metacognition and common knowledge by conveying the meaning of the team's accomplishments and providing functions for information processing activities (Marks *et al.* 2000; Zaccaro, 2001).

This example also showed the cooperative process influencing leadership. In other words, as the cooperation between members continued, the cooperative process had a significant influence on the implementation of leadership. For example, if advanced knowledge accumulated within the group, this knowledge would confer new meaning on the group's activities and affect

the external environment even more. Moreover, when expertise is dispersed among members at a high level in an organizational unit and autonomous activities are expanding, actions like controlling organizational borders and creating meaning, which would usually be performed by a leader, come to be shouldered by the group (Zaccaro, 2001).

A number of incompatibilities may result when bringing a business model that was domestically successful (with ordinary capabilities) overseas, where the environment is different. The capabilities to detect and resolve incompatibilities are a company's dynamic capabilities. From this example, it could be said that incompatibilities are resolved and adaptations are made through interactions between the organizational site's leadership and the cooperative process.

5. Conclusion

In this study, we observed the microfoundations of dynamic capabilities as organizational capabilities and focused particularly on cooperation at the organizational site level and on leadership as an important component of cooperation.

What is the relationship between organizations, leadership, and the process of responding to a changing environment through dynamic capabilities? To answer this question, we explained first that dynamic capabilities, organizations, and leadership have a close theoretical relationship. Next, to demonstrate that the theoretical relationship was also empirically valid, we highlighted a case study of a Japanese firm and described the interface between leadership and the environmental adaptation process in an actual cooperation situation. Finally, we explained that in the organization's adaptation process, leadership is an important factor both theoretically and empirically as a microfoundation for dynamic capabilities as organizational capabilities.

Shared leadership and situational leadership facilitate the coordinated work in the activity process and play a significant role in making use of organizational capability. It seems that we must reconsider the process of manifesting organizational capability in today's Japanese companies from the aspect of coordinated workings of each organizational member and leadership.

In this study, the discussion stops at the adaptation action process in a site's organizational units, and there were almost no references to the interface of organization activities and leadership related to an entire organization's capabilities. Therefore, this is a topic we would like to take on in the future.

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