

# Contribution of CEO Transformational Leadership While Enhancing Service Innovation Performance

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## Abstract

For its role in enhancing service innovation performance, transformational leadership has often been studied by the various researchers; but further research is dire need to explore the procedure, by which transformational leadership has its effect on service innovation performance. This study as four main goal to explore transformational leadership at higher level of management like CEO level to highlight the significant of innovation performance in enhancing the global competitiveness of service sector to clarify the process of transformational leadership affecting the service innovation performance by taking organizational factors as mediators and to empirically examined the proposed model explaining the relationships among CEO TFL, organizational factors, and service innovation performance through empirical examination. For analysis of proposed hypotheses, questionnaire was distributed among employees in banking sector. Principle findings of this study are CEO TFL has a positive impact on all three organizational variables including the exchange of expertise, organizational training and culture of innovation All the organizational factors including knowledge sharing, organizational learning, and innovation culture are positively related with service innovation performance Among organizational factors, organizational learning has most significant impact on service innovation performance positively and CEO transformational leadership is also directly related with service innovation performance positively.

**Keywords:** Transformational leadership • Knowledge sharing • Service innovation performance • Innovation culture

## Introduction

This study has been conducted to quantitatively measure the Impact on business growth quality of CEO Transformation Leadership (TFL) and organizational factors. Transformational Leadership (TL) has often been analyzed by researchers to assess innovation success. There exists both direct and indirect positive impact of TFL on organizational innovation performance But further research is needed to explore the process, through which transformational leadership has its effect on service innovation performance. Furthermore, earlier studies observed transformational leadership at lower level of management, while higher level has not been addressed [1]. In crux, understanding by way of How CEO Transformation Leadership is limited in terms of service product quality, and addressing this restriction is one of the main reasons why this study is conducted [2]. Another purpose for finding out the impact of CEO TFL on innovation performance of the service sector of Pakistan as it is the major contributor in Pakistan's GDP [3]. Surprisingly in FY 2017, 59.59 percent of GDP was consists of the service sector. This shows that service sector is emerging as a new avenue for economic growth in Pakistan [4].

Therefore innovation performance is required in service sector to enhance global competitiveness and this study will present a way for CEO's to foster service innovation performance. Theoretical framework for this insight was focused on the multidimensional framework of organizational innovation given and then it was combined with transformational leadership theory. The theoretical framework linking TFL, organizational factors and service innovation performance is depicted in the next section [5].

## Materials and Methods

### Impact of CEO transformational leadership on organizational factors

Previous studies depict that charismatic influence, inspiring motivation, intellectual stimulation, and individual considerations of transformational leaders promote knowledge-sharing in employees. There is a substantial affirmative link between transformational leadership style of management and employee knowledge- sharing (Figure 1).

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**Figure 1.** Research model.

As per Llorens organizational learning implementation demands supportive transformational leaders. Many studies empirically back the affirmative impact of TL [6].

**Organizational learning:** CEOs with transformational behavior make available learning prospects for followers in order to elevate their confidence, skills and abilities through intellectual stimulation, idealized influence and by giving inspirational motivation and individualized consideration.

**Organizational culture:** Is just like a back bone for an organization and its clearly evident that senior front-runners perform an imperative character in determining the organizational culture [7-10]. Transformational leaders intellectually stimulate personnel by articulating a stout vision and by emphasizing innovation. Account that creation of innovative climate and culture by so long as support for innovation is basically the job to be done by transformational leadership of an organization.

### Impact of CEO transformational leadership on service innovation performance

TFL is observed as leader's behavior that encourages innovation. Empirical outcomes of different studies show that TFL has affirmative impact on product innovation and firm performance. Determine that by being inspiring, motivating and visionary, leaders can positively affect the innovation performance [11]. Inspirational motivation of transformational leaders, instigates followers to compete and excel. With intellectual stimulation, transformational leaders boost their followers to look at situations with new perspective [12].

### Impact of knowledge sharing on service innovation performance

Knowledge sharing is defined as "actions that convey or distribute the knowledge from one individual to another, one group to another or from organization to another". Knowledge sharing helps the firms to maintain their competitive advantage by enhancing organizational innovation performance [13]. Thus, we propose: Knowledge sharing is positively related with service innovation performance.

### Impact of organizational learning on service innovation performance

Organizational learning is a multifaceted route which is helpful for the advancement of new knowledge and for changing behavior within the organization.

Previous studies proposed that learning in organization has the ability to boost firms' innovative proficiency. Organizational learning encourages employees to explore and share new ideas and take innovative affirm actions Hence it is supportive for NPD through sharing knowledge and its usage [14].

Organizational learning process entails attainment, distribution, interpretation and usage of information, and is diligently linked to innovation performance of an organization. Thus we propose H9. Organizational learning is positively related with service innovation performance [15].

### Impact of innovation culture on service innovation performance

To increase innovation, it is requisite for firms to give concern towards their organizational cultures, as it's the culture which can endorse or hinder product innovation and acts as a catalyst for product innovation performance. For companies striving for improved innovation must focus on nurturing and developing of an innovation culture [16-20]. Thus, we propose H10. An innovation culture is positively related with service innovation performance.

### Data collection and sample

This study data collected through banks in Pakistan by entreating a firm to refer the questionnaire to employees or managers in charge for marketing, RandD, manufacturing, or other roles. The sample comprise of 200 bank employees from fourteen banks including BOP, HBL, UBL, ABL, MCB, BIPL, Meezan bank, Bank Alfalah, Faysal bank, Soneri bank, NBP, Habit metropolitan [21].

**Measurement:** The measurement items applied in this study were adapted from the literature. All questionnaires items are assessed using a Likert scale of five points from 1 "strongly disagree" to 5 "strongly agreed". The operationalization of CEO TFL originates as of "Four Is" notion established individualized consideration, inspirational motivation, idealized influence and intellectual stimulation [22]. For measuring CEO transformational leadership, the items are basically adapted.

Operationalization of the knowledge sharing was done by considering the grade up to which a firm pays attention to KS and for this the measurement items were modified [23].

Operationalization of organizational learning involves grounded four courses of organizational learning which are knowledge attainment, statistics circulation, information analysis and organizational remembrance [24]. For measurement of OL, the measurement items were modified and adopted.

Operationalization of innovation culture is done by considering that whether values of a company are auspicious for discovering new opportunities, evolving innovation and assisting employees' innovative behaviors or not.

The measures were adapted Operationalization of service innovation performance includes both pecuniary and non-pecuniary performance of new or improved services presented by an organization in the meantime of last three years.

## Results

Regression analysis was run in order to test hypothesis. Reliability test and factor analysis has been accomplished to check the reliability and validity of the instrument designed.

### The measurement model

In our study, instruments reliability was evaluated with Cronbach's alpha coefficient. Including moderating, dependent and independent variables. In our study, the instrument is reliable as all variables have Cronbach's alpha above 0.60 which is suitable. Factor analysis was executed to ration the validity in terms of construct. As displayed in and are higher than 0.5, as suggested (Tables 1-3).

**Table 1.** Embodies the values of Cronbach's alpha for all variables.

Variables	No. of items	Cronbach's Alpha
CEO TFL	14	0.839
Knowledge sharing	7	0.76
Organization learning	15	0.843
Innovation culture	5	0.619
Service innovation performance	5	0.69

**Table 2.** Reports the descriptive statistics explaining standard deviation and mean of the variables.

Variables	Mean	S.D
CEO TFL	3.926	0.5
Knowledge sharing	3.897	0.58
Organization learning	3.871	0.48
Innovation culture	3.873	0.53
Service innovation performance	3.922	0.5

Note:  $p < 0.001$ .

**Table 3.** Factor loadings for every items corresponding to its construct are statistically significant.

Construct	Items	Loadings	p-value
<b>CEO TFL</b>			
CEO Idealized influence	II1	0.504	***
	II2	0.545	***
	II3	0.515	-
CEO Inspirational motivation	IM1	0.515	***
	IM2	0.517	***
	IM3	0.565	-
CEO Intellectual Stimulation	IS1	0.531	***
	IS2	0.574	***
	IS3	0.503	***

CEO Individualized consideration	IS4	0.532	-
	IC1	0.579	***
	IC2	0.533	***
	IC3	0.607	***
	IC4	0.571	-
Knowledge sharing	KS1	0.594	***
	KS2	0.545	***
	KS3	0.792	***
	KS4	0.611	***
	KS5	0.746	***
	KS6	0.567	***
	KS7	0.786	-
Organizational learning knowledge acquisition	KA1	0.772	***
	KA2	0.761	***
	KA3	0.782	***
	KA4	0.732	-
Information distribution	ID1	0.516	***
	ID2	0.514	***
	ID3	0.545	***
	ID4	0.592	-
Information interpretation	INI1	0.555	***
	INI2	0.583	***
	INI3	0.512	***
	INI4	0.756	-
Organizational memory	OM1	0.664	***
	OM2	0.612	***
	OM3	0.678	-
Innovation culture	INC1	0.774	***
	INC2	0.739	***
	INC3	0.707	***
	INC4	0.761	***
	INC5	0.753	-
Service innovation performance	SIP1	0.763	***
	SIP2	0.766	***
	SIP3	0.675	***
	SIP4	0.695	***
	SIP5	0.765	-

**Hypothesis testing:** Hypothesis were tested through regression analysis. H1 ( $\beta=0.76$ ,  $p<0.05$ ). Therefore, H1 is accepted. H2 that CEO TFL is positively related with organizational learning. The

relationship was confirmed ( $\beta=0.751$ ,  $p<0.05$ ), So H2 accepted. H3 has predicted that CEO TFL is positively related with innovation culture. This correlation was confirmed ( $\beta=0.58$ ,  $p<0.05$ ), hence H3 is accepted. H4 proposes that CEO TFL is positively related with service innovation performance. This shows ( $\beta=0.585$ ,  $p<0.05$ ). That, H4 accepted. H8 proposes that knowledge sharing is positively related with service innovation performance. This relationship was shows ( $\beta=0.499$ ,  $p<0.05$ ). Hence, H8 is accepted. H9 proposes that organization learning is positively related with service innovation performance. Values shows that ( $\beta=0.637$ ,  $p<0.05$ ). as, H9 accepted. H10 proposes that innovation culture is positively related service innovation performance. Its values ( $\beta=0.616$ ,  $p<0.05$ ). that why, H10 is accepted. H5, H6 and H7 are the hypothesis related to mediation. In case of H5, the hypothesis is confirmed as it fulfills all the mediation conditions; influence of IV (CEO TFL) on mediator (knowledge sharing) is significant ( $\beta=0.76$ ,  $P<0.05$ ), impact of mediator on DV (service innovation performance) is significant ( $\beta=0.499$ ,  $p<0.05$ ), impact if IV on DV is significant ( $\beta=0.585$ ,  $p<0.05$ ) and lastly the influence of IV on DV in the presence of mediator is significant ( $p=0.00$ ). Thus, CEO transformational leadership has positive indirect impact on service innovation performance through partial mediation of knowledge sharing. In case of H6, the hypothesis is confirmed as it fulfills all the mediation conditions; impact of IV (CEO TFL) on mediator (organizational learning) is significant ( $\beta=0.751$ ,  $p<0.05$ ), impact of mediator on DV (service innovation performance) is significant ( $\beta=0.637$ ,  $p<0.05$ ), impact if IV on DV is significant ( $\beta=0.585$ ,  $p<0.05$ ) and lastly the effect of IV on DV in the presence of mediator is insignificant ( $p=0.023$ ). Thus, CEO transformational leadership has positive indirect impact on service innovation performance through full mediation of organizational learning. In case of H7, the hypothesis is confirmed as it fulfills all the mediation conditions; impact of IV (CEO TFL) on mediator (innovation culture) is significant ( $\beta=0.58$ ,  $p<0.05$ ), impact of mediator on DV (service innovation performance) is significant ( $\beta=0.616$ ,  $p<0.05$ ), impact if IV on DV is significant ( $\beta=0.585$ ,  $p<0.05$ ) and lastly the impact of IV on DV in the presence of mediator is insignificant ( $p=0.00$ ). Thus, CEO TFL has positive indirect impact on service innovation performance through partial mediation of innovation culture.

## Discussion

The topmost purpose of paper was to scrutinize Effects of CEO TFL on the quality of business innovation. Using linear regression analysis, a conceptual model connecting transition management, organizational factors and success in service innovation was analyzed. H1 to H3 results revealed that CEO TFL has a positive relationship with knowledge sharing, organizational training, and culture of creativity. The conclusions of H4 depicted that CEO transformational leadership is interrelated with service innovation performance positively. Outcomes of H8 to H10 show that all the organizational factors including knowledge sharing, organizational learning, and innovation culture are related with service innovation performance in positive way. This means, combination of the three organizational factors of this study, is an affected tool to be used by transformational leaders to mend the service innovation performance of an organization.

## Conclusion

Testing of H5 and H7 shows that relationship between CEO TFL and service innovation performance is partially mediated by knowledge sharing and innovation culture. The possible explanation to these results is that competition has been increased in banking sector and to be competitive, higher officials at banks are focusing more on innovations. Moreover, in banks there exists proper hierarchy and structure, which promotes knowledge sharing and innovation culture to improve innovation performance. Therefore, transformational leaders should focus on both, KS and innovation culture to improve the service performance. Testing of H6 highlights that relationship between CEO TFL and service innovation performance is fully mediated by organizational learning. Therefore, if transformational leaders create organizational leaning culture to have significant impact on service innovation.

## Theoretical contributions and managerial implications

The outcomes of this study add value, not only to theory but to practice as well. A part from theoretical contribution, results of this study have crammed the gap proposed by Tharnpas Sattayaraksa by collecting data from service sector and by including organizational factor of knowledge sharing as a new mediator. Furthermore, this study provides a process that creates link between CEO TFL. The consequences have also depicted, serious overriding part of organization learning while linking CEO TFL and service innovation performance. Following are the managerial implications of this study. Firstly, for enhancement of service innovation performance, transformational leadership style has been recommended as the most desirable style to be opted by CEOs. Secondly, for top leaders with transformational style, it has been recommended to accept organizational learning as a best tool to flourish service innovation performance.

## Limitation

This study covers both theoretical contributions and managerial implications but there are some loopholes too. Firstly, the findings of this study can't be generalized to a larger scope as the data were collected only from banks. Future research has the scope, to fill this gap by collecting data from multiple service industries. Secondly, this study hasn't compared the results of manufacturing and service sector. Thirdly, all four dimensions of CEO TFL and organizational learning have been taken collectively rather than as individually. Future research can explore the effects of these dimensions separately on the respective dependent factors.

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