



Transformational Leadership and Service Innovation

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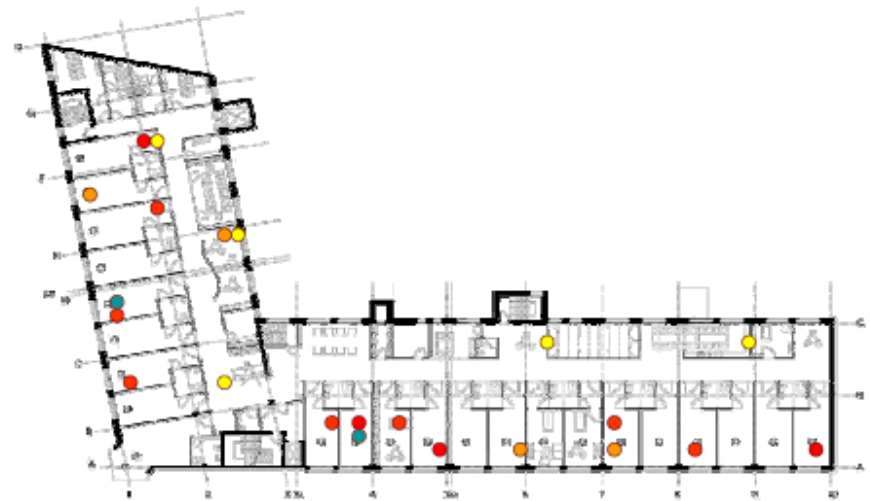
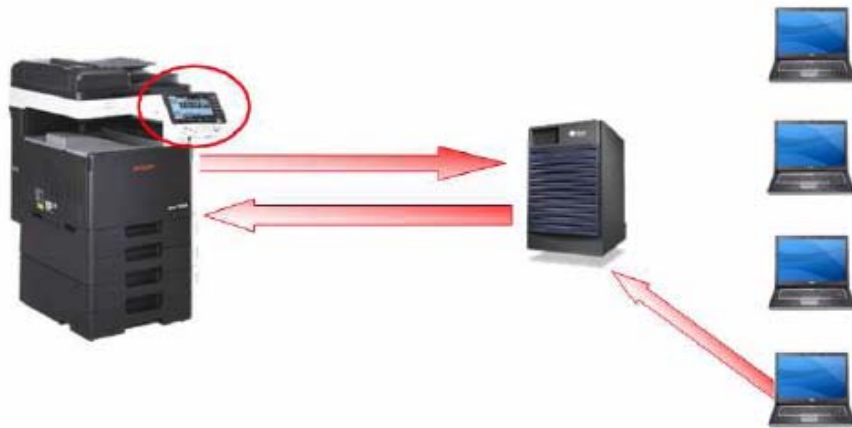
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Stuttgart

1. Introduction
2. Background
3. Methods and Study
4. Discussion and Implications
5. Limitations
6. Summary

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Current Challenges for Service Companies

- Rising competition on service markets
- Increasing customer demands
- Availability of new technologies

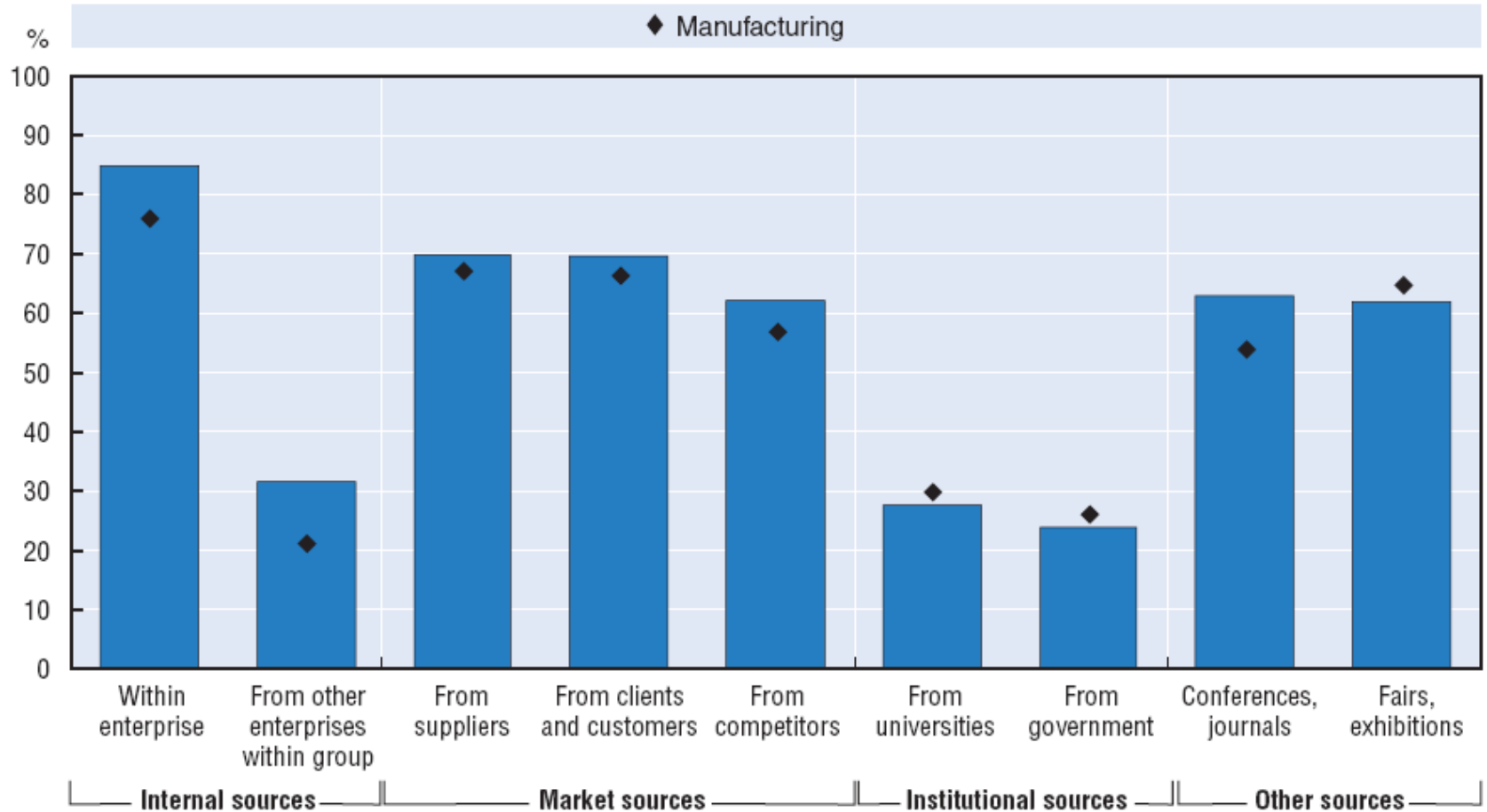


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Employees and Customers as the Most Important Sources for Service Innovation

% of total innovative companies



Source: OECD (2004).

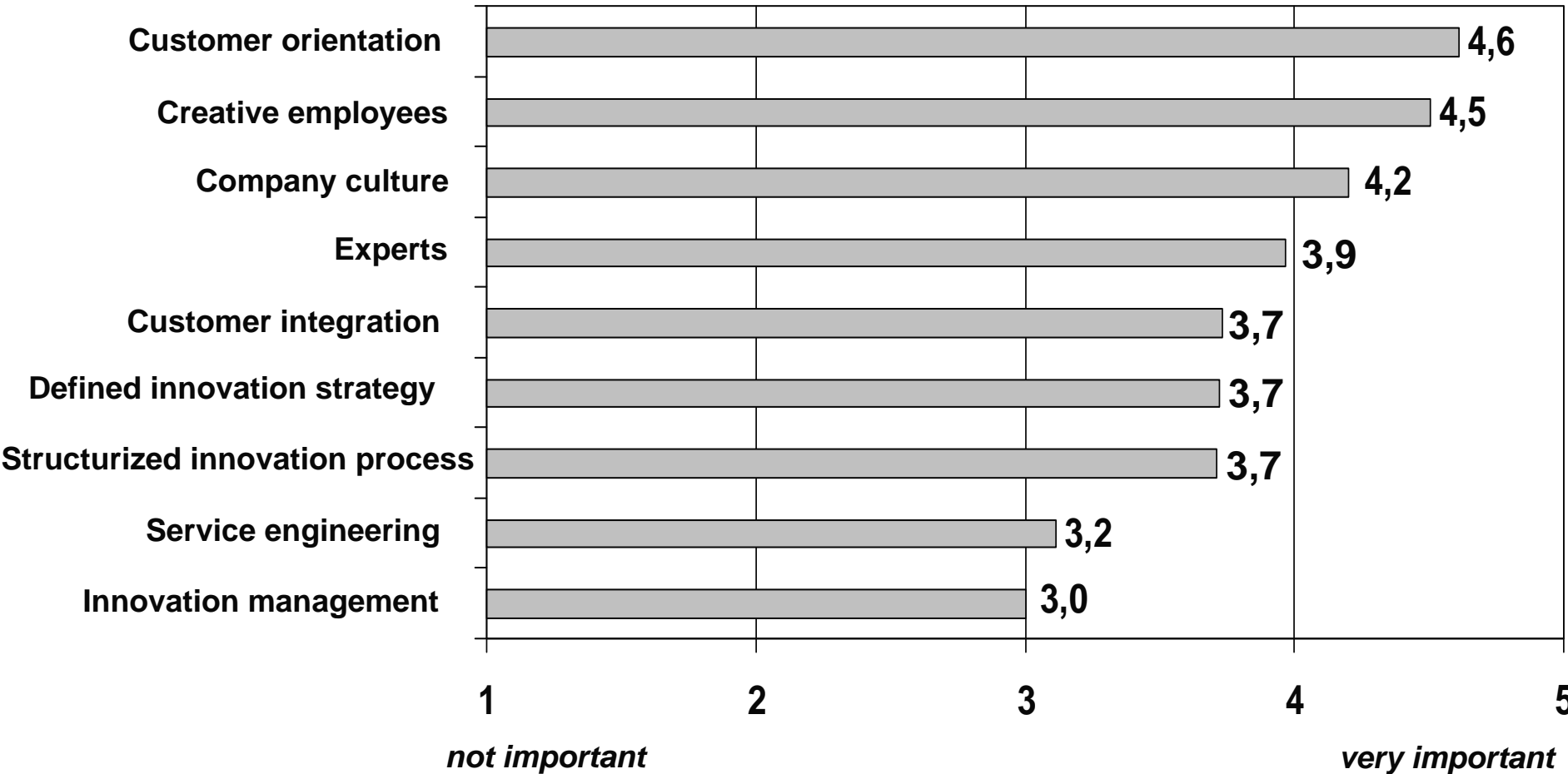
Barriers of Service Innovation Management

- Dominance of unstructured and ad hoc development of new services
- No established innovation culture within service companies or service units
- Lack of competences concerning the development of services
- Increasing importance of customer-oriented knowledge (e.g. experiences, problems and wishes of customers) and therefore of the customer contact employees

- Challenge: To implement an innovation-oriented leadership style

Sources: Bullinger/Meiren (2001); Busse (2005); Scholich/Gleich/Grobusch (2006)

Success Factors for Service Innovations

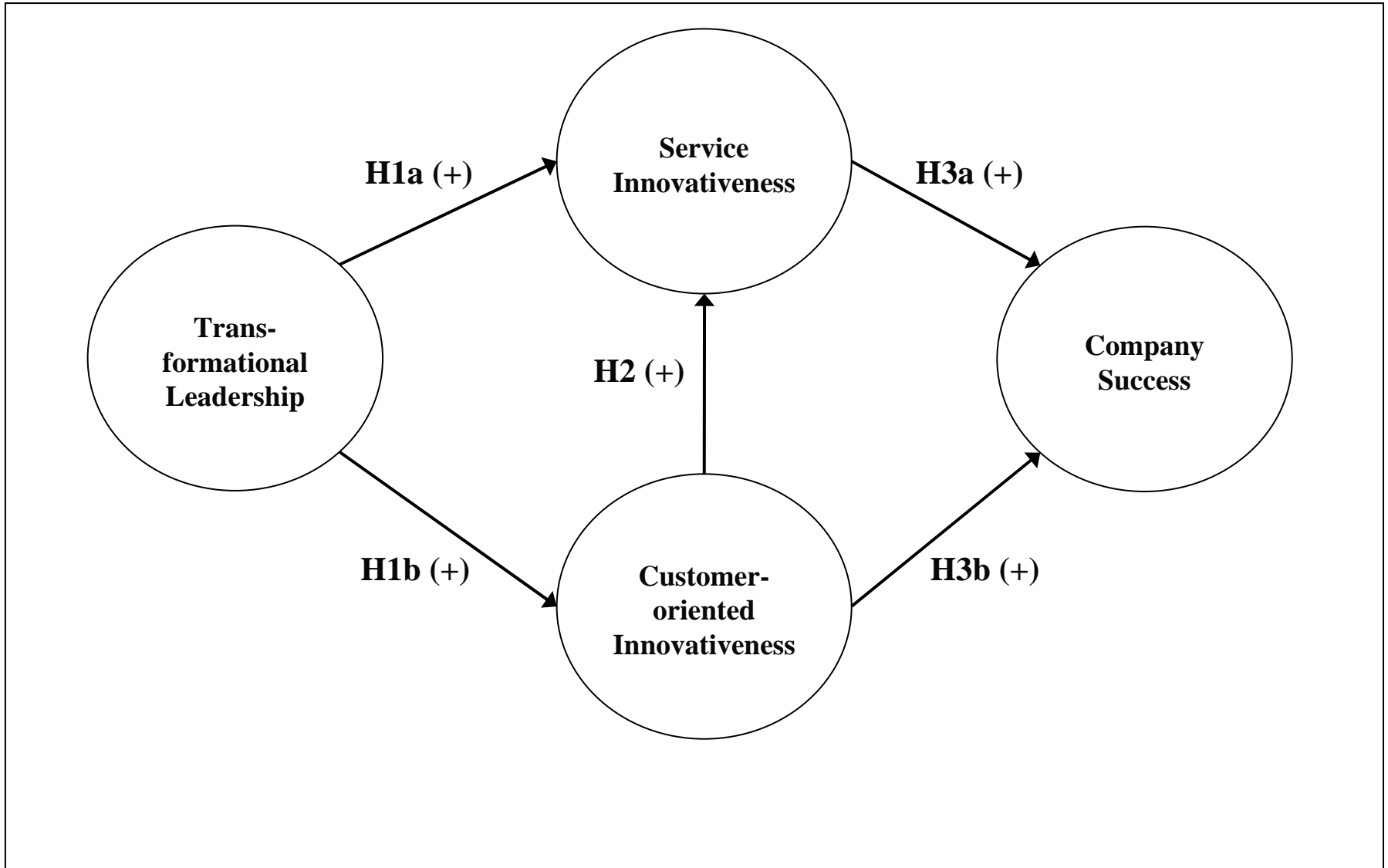


Source: Scholich/Gleich/Grobusch (2006).

- **Goal**
Company reorientation on innovation through impact on attitudes and values of employees
- **Intention**
Stronger sensitivity and higher involvement of the employees for "noble values"
- **Definition by Burns (1978, p. 20):**
Transformational leadership „occurs when one or more persons engage with others in such a way that leaders and followers raise one another to higher level of motivation and morality“

- **Idealized Influence (Charisma)**
 - Show respect, awake sense for shared goals, respect hopes and needs of the employees
- **Inspirational Motivation**
 - Draw an optimistic picture of the future, open new horizons, trust
- **Intellectual Stimulation**
 - Encourage employees to reflect former assumptions and problems, show interferences
- **Individualized Consideration**
 - Show interest on well-being of employees, know their habits, support employee development, give orders considering their knowledge

Model and Hypotheses



1. Introduction
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- Written questionnaire
- Knowledge-intensive service companies
- Sample: 1.028 companies (= 100%)
- Received 121 usable questionnaires back (= 11.8%)

- **Transformational Leadership**

German translation of Bass and Avolio's 'Multifactor Leadership Questionnaire' in version MLQ-5x

- **Service- and customer-oriented service innovativeness**

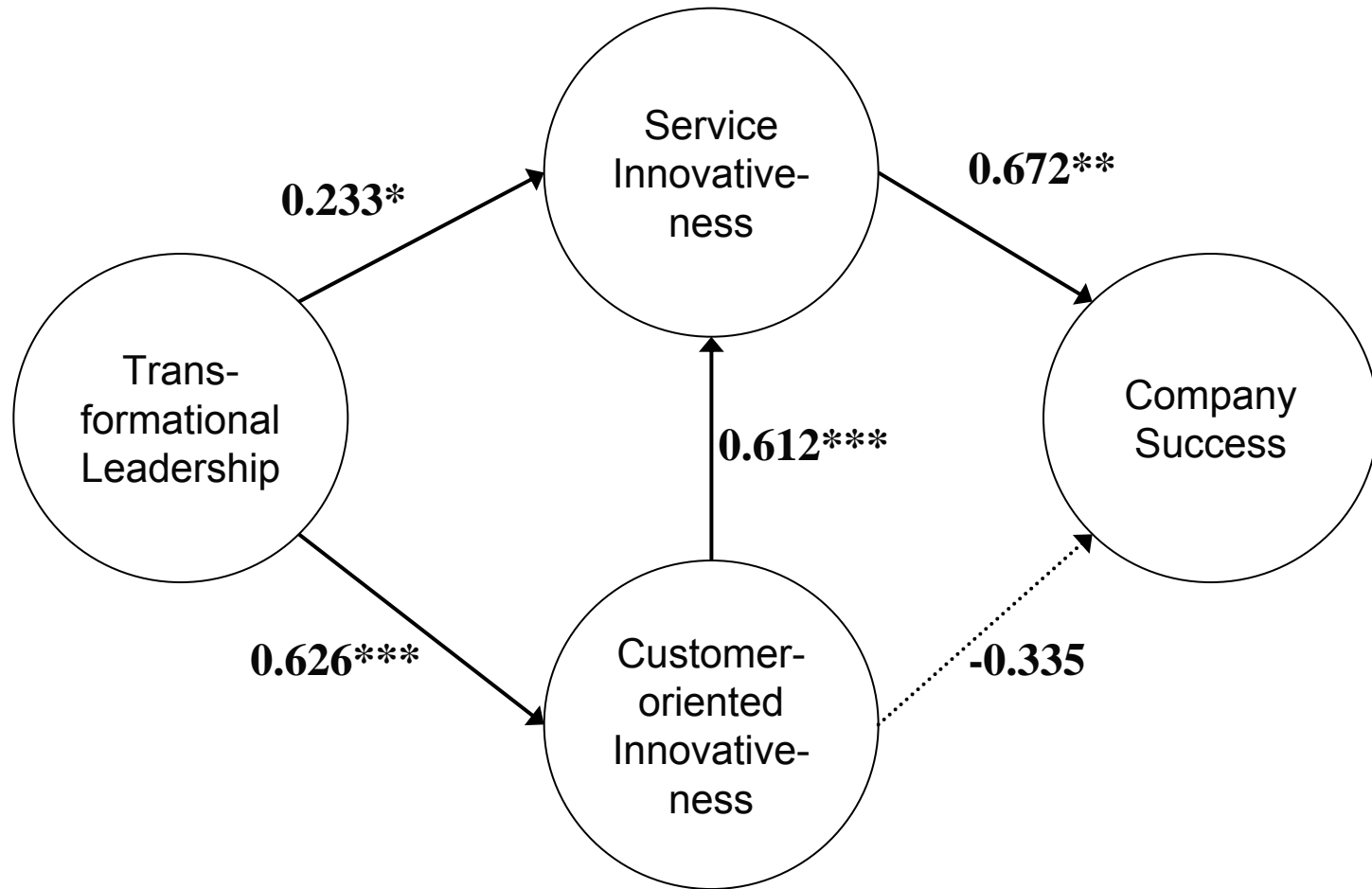
New developed scales with 4 and 3 items with regard to Kearney (2005)

- **Company success**

3 items: Development of number of employees, revenue and profit in the last three years

1. Introduction
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Results



(Numbers are standardized path coefficients. Dotted line indicates nonsignificant path ($p > .1$))

*** $p < .001$, ** $p < .005$, * $p < .1$

Managerial Implications

- Direct results
Service companies should invest in transformational leadership trainings of their management
- Further implications
 - Innovation strategy for services
 - Strategic target of service innovation management
 - Resulting innovation goals
 - Process management in service innovations
 - Systematic process
 - Customer integration
 - Implementation of service innovation management
 - Development of innovation awareness for new services
 - Service innovation friendly culture in the company
 - Organizational aspects in implementation
 - Offer support in terms of necessary resources
 - Measurement of service innovation activities

1. Introduction
2. Background
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Limitations

■ Theoretical Limitations

- Transformational leadership often is reduced to its charismatic factor
- Negative effects exist, especially with problematic value orientation
- Are company culture and individual norms changeable?
- Is transformational leadership relevant in every context? What about repetitive processes?

■ Empirical Limitations

- Our study focuses on knowledge-intensive service industries: Could the results be transferred to other service industries?
- Common Method Bias
- We do not consider moderating factors e.g. type of innovation (incremental vs. radical innovation)

1. Introduction
2. Background
3. Methods and Study
4. Discussion and Implications
5. Limitations
6. Summary

Summary

- Transformational leadership strengthens service- and customer-oriented innovativeness in service companies
- Customer-oriented innovativeness supports service innovativeness
- Both service- and customer-oriented innovativeness result in company success

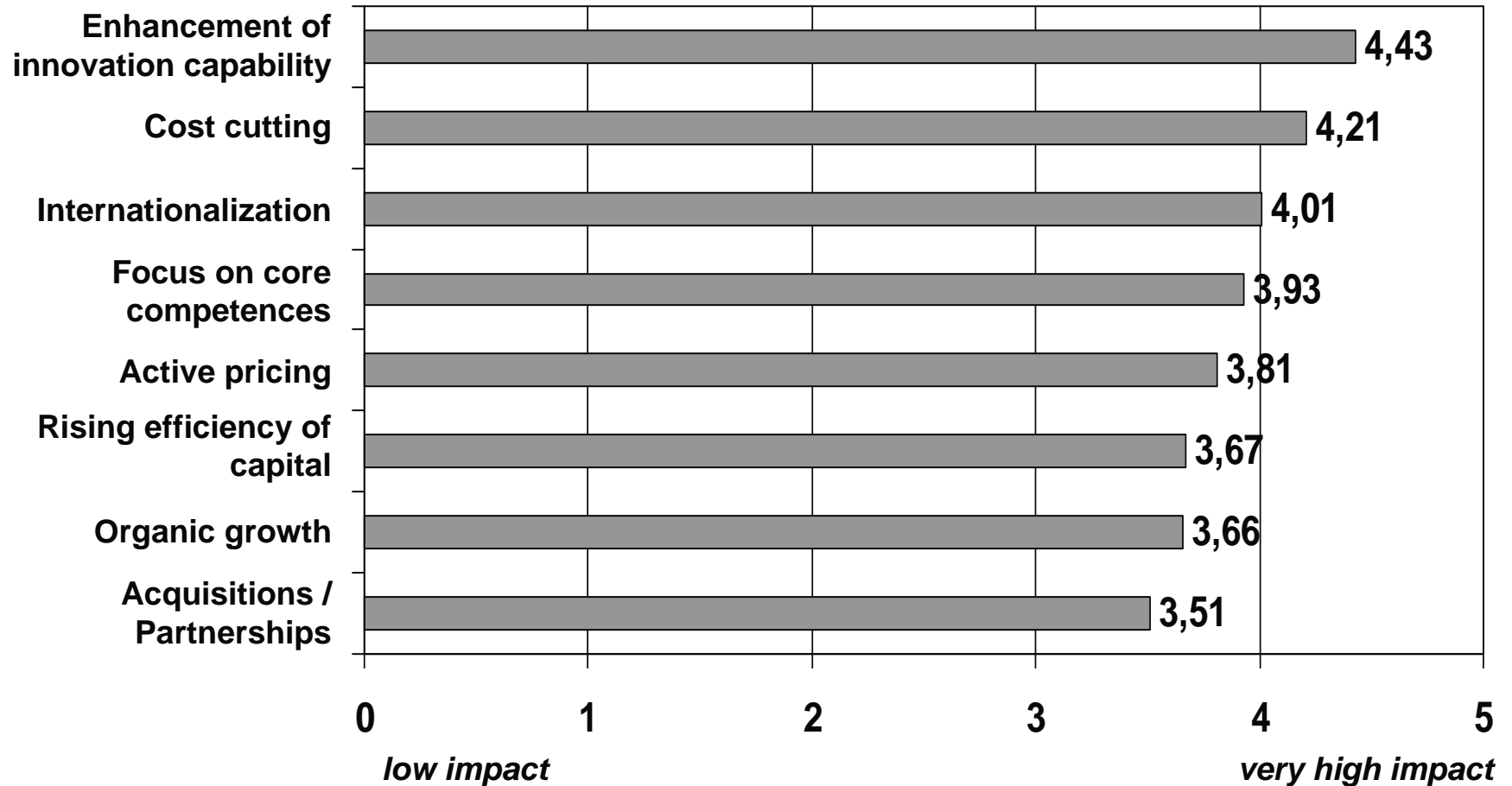




Back-up

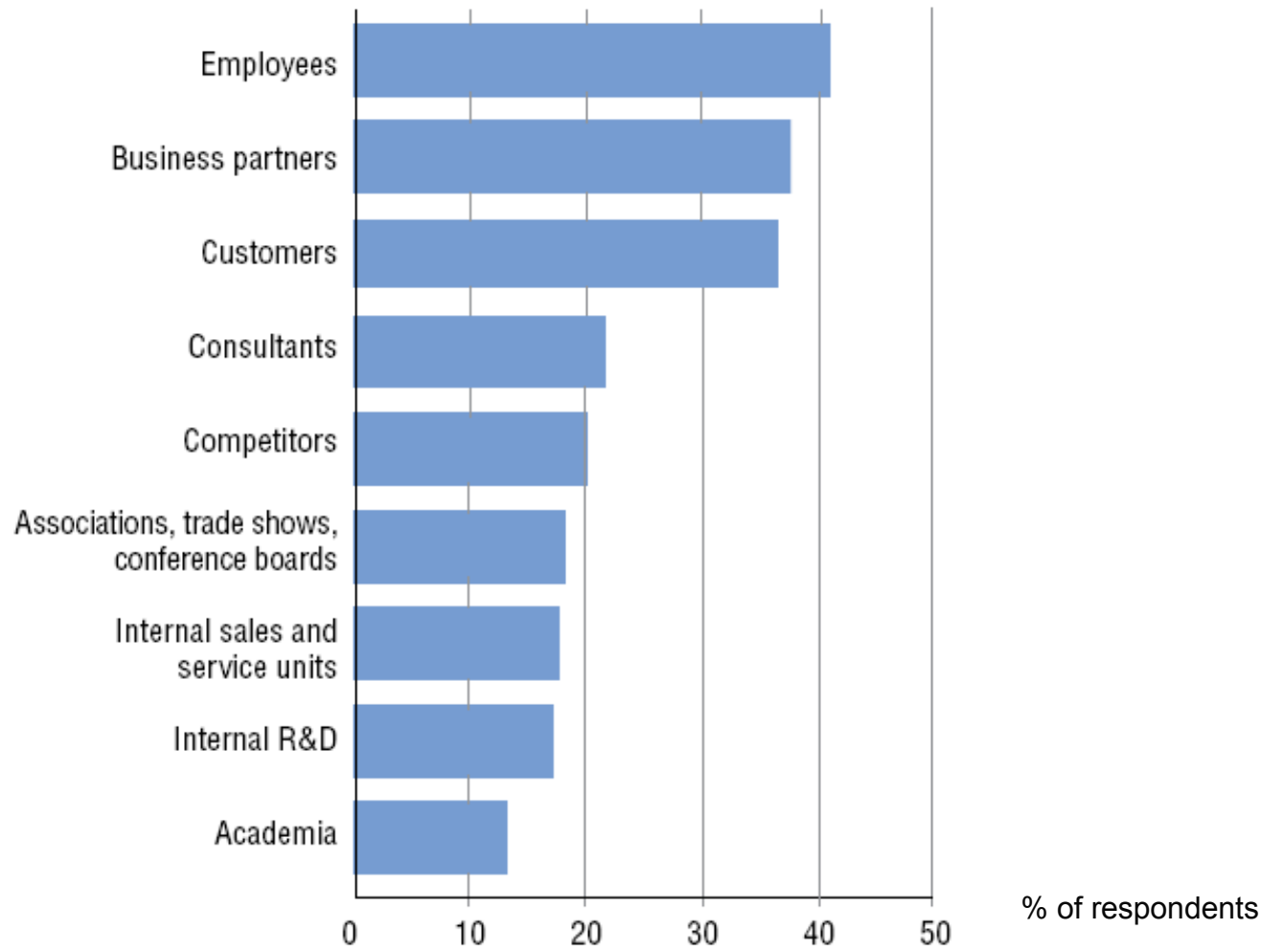
Innovation as Success Factor – Study by Arthur D. Little

What are the main factors for rising rentability and growth?



Source: Arthur D. Little (2004)

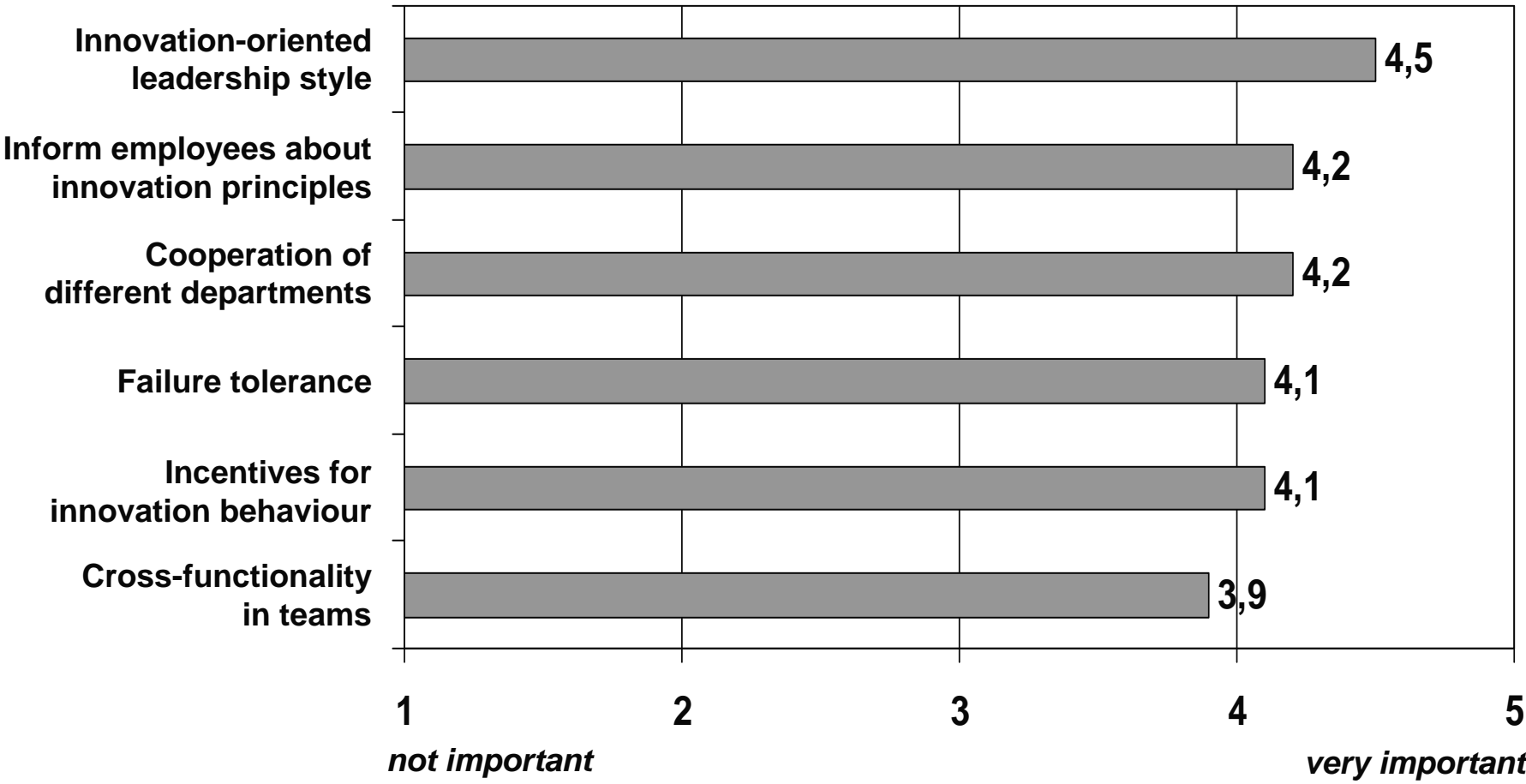
Staff as One of the Most Important Sources of Innovative Ideas



Note: Respondents could select up to three choices.

Source: IBM Global CEO Study (2006).

Drivers of Service Innovations



Source: Scholich/Gleich/Grobusch (2006)

Mean, SD, Cronbach's α , Eigenvalue and AVE of the Constructs

	Mean	SD	No indicators	α	Eigenvalue	variance extracted
MLQ-scales	3.63	.71	11	.92	6.05	.550
service innovativeness	3.36	.79	3	.87	3.26	.654
customer-oriented innovativeness	3.72	.78	5	.78	2.13	.709
company success	N.A.	N.A.	3			
N.A. = not applicable						

Mean, Standard Deviation and Intercorrelations in MLQ

Variables	Mean	SD	Correlations			
			II	IM	IS	IC
Charisma (II)	3.82	.79	1			
Inspirational motivation (IM)	3.56	.83	.79	1		
Intellectual Stimulation (IS)	3.41	.75	.70	.65	1	
Individual Consideration (IC)	3.30	.85	.74	.64	.72	1
all correlations with $p < .01$						

Standardized Indirect and Total Effects in Integrative Model

	Transformational Leadership	Customer-oriented innovativeness	Service innovativeness	Company success
Explained variance (R2)		.392	.607	.222
Customer-oriented innovativeness	N.A. / .626			
Service innovativeness	.383 / .616	N.A. / .612		
Company success	.204 / .204	.411 / .076	N.A. / .672	
Numbers before slash represent standardized indirect effects, number after slash standardized total effects. N.A. = not applicable				

- Systematical innovation process with the phases of
 - idea generation,
 - screening of the new service ideas,
 - business analysis including the business plan,
 - testing and
 - market launch

- systematic behavior,
- linked with systematic aspects of the procedures and
- the rules that govern processes

„Who“-Dimension

- necessary resources and
- cross-functionality