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The Impact of TMT Advice Seeking Behaviour on Dynamic Service Innovation Capabilities: Evidence from the Service Sector in Sri Lanka

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Abstract. This study investigates how Top Management Team (TMT) advice-seeking behaviors—both external and internal—shape the development of Dynamic Service Innovation Capabilities (DSIC). Although the literature has long emphasized executive decision-making, the specific consultative mechanisms that trigger DSIC remain underexplored. Using a quantitative methodology, data were collected via a standardized questionnaire from a sample of 260 TMT members across six diverse service sectors. The conceptual model was tested using Structural Equation Modeling (SEM) in AMOS. The results confirm that both TMT external and internal advice-seeking behaviors significantly and positively affect DSIC, supporting both research hypotheses. Specifically, external advice-seeking behaviour serves as a critical debiasing mechanism that enables TMTs to overcome path dependence and anticipate emerging market shifts. Simultaneously, internal advice-seeking fosters a climate of psychological safety and trust, catalyzing the conceptualization of new services and bridging the implementation gap through functional expertise. These findings contribute to the dynamic capabilities perspective by highlighting advice-seeking as a dual engine for organizational agility. In practice, the study suggests that service-sector leaders should adopt a “consultative-orchestration” model, formalizing external knowledge loops and internal feedback systems to develop dynamic service innovation capabilities that continuously bring innovations.

Keywords. TMT Advice Seeking Behaviour, Dynamic Service Innovation Capabilities, Service Innovation

1. Introduction

Today, the service sector offers significant growth and profitability potential globally. Service industries have expanded rapidly in recent decades and account for 65–70% of gross domestic product (GDP) in all developed nations (Statista, 2025). In fact, in advanced economies, services account for approximately 60–80% of GDP and over 70% of total employment (World Bank Report, 2024). In the Sri Lankan context, in terms of value added, manufacturing has remained roughly constant at 25.5 percent of GDP, while the value added of agriculture has declined to 8.3 percent, with the service sector accounting for 57.5 percent of GDP (Department of Census and Statistics; Sri Lanka, 2025), indicating that growth in the

service sector is likely to continue. Even economies with a strong manufacturing focus are shifting toward a service-dominated economy.

It is believed that organizations must continually develop new services to compete in changing environments and achieve performance, which requires innovation (Farida & Setiawan, 2022; Kankam-Kwarteng et al., 2023). Service innovations are value propositions that were not previously available to customers and arise from changes to the service concept and the delivery process (Mahavarpour Marvi et al., 2023). The emerging field of dynamic capabilities, grounded in the resource-based view, offers a new perspective on service innovation. According to this perspective, to continuously develop new services in a dynamic environment, firms must cultivate dynamic service innovation capabilities that enable service innovation (Hertog et al., 2010). These capabilities allow service firms to formulate and implement the innovation strategy successfully. Service innovation and its associated dynamic capabilities are a key concern for many firms today, and some researchers cite them as key drivers of consistent high performance over time (Troisi et al., 2023). An understanding of these capabilities is an important first step toward realizing the benefits of future service innovation; without it, a firm risks becoming trapped in activities that deliver ever-decreasing returns.

Unfortunately, the research stream on dynamic service innovation capabilities is relatively new and still the subject of vigorous scholarly debate. The tendency to discuss innovation capabilities in product and technology development contexts often leads to neglect of the service context; therefore, it is necessary to extend this theory to service-related aspects (Brem & Voigt, 2023). Ambiguity and construct vagueness, conflicting views, and a lack of empirical data remain pervasive and pose challenges in explaining a company's competitive advantage in its entirety. Despite extensive debate about its importance, there remains a limited understanding of "how" organizations develop dynamic service innovation capabilities and what factors influence them. Thus, as an emerging area of research, several calls for a theory of how to develop dynamic service innovation capabilities have been issued (Troisi et al., 2023; Brem & Voigt, 2023). Therefore, the determinants of the development of these capabilities within service-dominant firms were examined in this research.

Further, assuming that firms can draw on these antecedents across different levels to build dynamic capabilities, several important but underexplored questions arise, such as: Where are the antecedents of firm-level dynamic capabilities located? Do they lie within individual employees, the top management team (TMT), the firm, or the industry? A handful of studies highlight organizational and individual-level factors (Teece, 2007; Chiang et al., 2023) and generally discount TMT and contextual factors. Little research has examined the role of top managers in building dynamic service innovation capabilities (Troisi et al., 2023). Although the firm's core team, the TMT, has undertaken innovative activities, these have not received sufficient attention. This research primarily focuses on analyzing the Advice Seeking Behaviour of the TMT and its influence on dynamic service innovation capabilities, whereas the TMT's role in building such capabilities has been rarely examined (Tan, 2024; Li & Shuang, 2019). Therefore, the main research question to be answered in this research is:

How do the top management team (TMT) internal advice-seeking behaviour and external advice-seeking behaviour influence the development of dynamic service innovation capabilities in service-centric business organisations?

2. Literature Review

2.1 Service Innovation, Dynamic Service Innovation Capabilities, and TMT Advice Seeking Behaviour

Service innovation is the multidisciplinary process of designing, realizing, and marketing combinations of existing and/or new services and products to create valuable customer experiences. Hertog et al. (2010) defined service innovation as a new service experience or service solution that includes one or more of the following dimensions: new service concept, new customer interaction, new value system/business partners, new revenue model, or new organizational or technological service delivery system. The idea that the essence of producing a service is to provide a solution or an experience is attributed to several authors (Gadrey & Groenroos, 2007). According to these researchers, a service business can innovate across all dimensions or across a combination of the dimensions previously outlined. Furthermore, Hertog et al. (2010) proposed a set of six higher-order abilities, termed dynamic service innovation capabilities (DSICs), that are needed to sustain continuous service innovation: sensing user needs and technological options; conceptualization; bundling and unbundling; coproducing and orchestrating; scaling and stretching; and learning and adapting. Together, these abilities encompass a wide range of competencies, processes, and resources that are crucial to improving and renewing the services a firm delivers. Many years of empirical and theoretical research underpin the set of dynamic service innovation capabilities developed by Hertog et al. (2010), and the current research examines the role of TMT advice-seeking behaviour (both internal and external) in developing these capabilities.

Consistent with social capital theory, this research suggests that important antecedents of dynamic service innovation capabilities are located at the TMT network level. In line with Makadok (2001), dynamic innovation capabilities are constructed rather than purchased in the market and are embedded within the organization. Therefore, the main argument is that, to seize new opportunities and translate them into practical solutions, organizations need to continually reconfigure their existing resources and knowledge and generate new knowledge from both external and internal sources (Priyono, 2022). In line with Teece (2025), firms need to develop higher-order dynamic innovation capabilities based on external knowledge to leverage their substantive (or ordinary) capabilities. Yli-Renko et al. (2001, p. 587) contend that “by building relation-specific assets, knowledge share routines, and effective relational governance mechanisms into relationships, firms can leverage their relational resources for knowledge acquisition and exploitation”. To develop diverse innovation capabilities, organizations often need to leverage their social networks, which provide access to novel sources of information and opportunities outside the firm (Benin & Almudaihesh, 2024).

Research on strategic decision-making has treated advice-seeking behaviour as an important attribute of top management teams that influences organizational outcomes. Multiple studies have suggested that advice seeking is a ubiquitous phenomenon, as senior executives tend to rely more heavily on oral and personal information sources than on written and impersonal ones, such as reports or outputs from management information systems (Cross & Borgatti, 2024). Yet the understanding of how top management teams use advice to modify current strategies and pursue dynamic innovation capabilities and innovations remains unclear. Dynamic innovation capabilities build on new knowledge and require departing from existing skills and capabilities. Studies have shown that some top management teams can recognize distant opportunities and allocate organizational resources to innovation, whereas others fail to do so, putting their organizations at risk of becoming obsolete (Saeed, 2025). Although TMTs can influence organizational responses by establishing formal and informal coordinating

mechanisms for the implementation of innovation processes, little attention has been given to the ways in which TMTs deal with knowledge sources that can enable them to sense and interpret environmental change, or that influence their decisions whether or not to pursue certain courses of action.

2.2 *Hypotheses Development*

2.2.1 *The impact of TMT External Advice Seeking on the degree of Dynamic Service Innovation Capabilities*

Dynamic service innovation capabilities (DSICs) describe an organization's ability to continuously sense, seize, and turn knowledge into new or improved services in response to changing environments. Because service innovation is fundamentally knowledge-intensive and relational, relying solely on internal knowledge is usually inadequate. To develop robust DSICs, businesses require diverse, timely insights that go beyond their internal resource boundaries. TMT external advice seeking can be defined as the formation of opinions, attitudes, and judgments through the deliberate exchange of information with external parties (Bonaccio & Dalal, 2006). It is well known that top managers access resources and knowledge for innovation from external sources, including users, suppliers, competitors, universities, and so on (Garrido-Morgado & Aucejo-García, 2023). By engaging with customers, suppliers, competitors, consultants, and universities, TMTs can better recognize emerging opportunities, anticipate change, and integrate external inputs with internal capabilities. This enhanced informational inflow stimulates dynamic learning and strategic adaptability, both of which are essential for developing and sustaining dynamic service innovation capabilities. As Sun et al. (2023) argue, while the invention or conception of innovative ideas may be an individual activity, innovation is a collective achievement. This argument aligns with the open innovation paradigm, which posits that openness fosters the introduction of new products or services by combining the efforts and resources of a large and diverse pool of individuals with access to heterogeneous and complementary knowledge (Pepe et al., 2024). Many researchers suggest that inter-organizational knowledge sharing influences a firm's innovativeness by supporting creativity and generating ideas (Tran et al., 2024). The more actively a top manager seeks external advice, the broader the array of opportunities to acquire and assimilate knowledge that is not yet known by TMT members and that will improve the ability to sense user needs, conceptualize new service concepts, bundle offerings, learn, and adapt (Cross & Borgatti, 2024). In addition to spanning organizational boundaries, external advice can be instrumental in coping with resistance to radical organizational changes that accompany innovation. Furthermore, seeking external advice can facilitate top managers' efforts to legitimize particular innovation strategies. For instance, external managers can be consulted to train employees to work with unfamiliar technologies, manage the change process, or substantiate the necessity of the intended shift toward innovation. Hence, this researcher proposed that top managers' active seeking of external advice enables organizations to pursue dynamic service innovation capabilities.

H1: TMT external advice seeking will be positively associated with the dynamic service innovation capabilities

2.2.2 *The impact of TMT Internal Advice Seeking on the degree of Dynamic Service Innovation Capabilities*

TMT internal advice-seeking behaviour can be defined as the formation of opinions, attitudes, and judgments through the deliberate exchange of information with other internal individuals (Bonaccio & Dalal, 2006). One of the primary sources that directs top managers'

attention is their internal social environment—the way they interact with other internal people—often advisers within the firm, such as lower-level managers (McDonald & Westphal, 2003). Internal advice-seeking helps ensure that TMTs remain attuned to the internal environment. Lower-level managers and other employees can propose initiatives that expand the range of options beyond those generated by the TMT itself (Maria Grace Herlina et al., 2024). They offer top managers new alternatives that may not have been considered earlier and provide new perspectives on the problem at hand (Alexiev et al., 2010). Credible advice from internal sources can alter the choices TMT members make and guide subsequent organizational actions and behaviours away from established patterns and routines toward new, innovative ones (Hock-Doeppen et al., 2025).

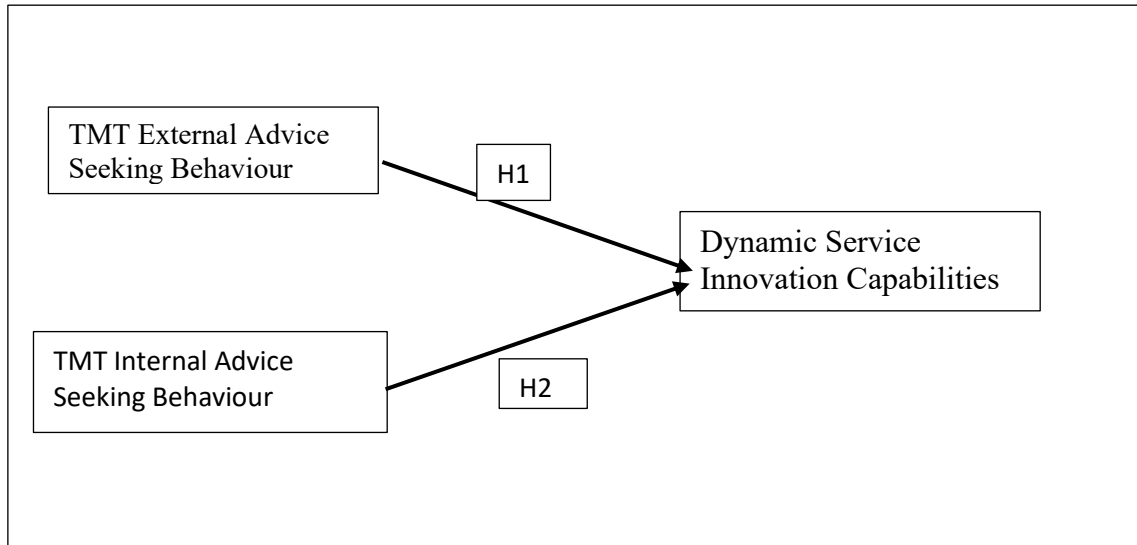
Top managers may also use internal advice-seeking as leverage to drive innovation that departs from existing services and markets. Firstly, by allowing internal consultation, a climate of openness to novel ideas is created. Within the framework of trust that internal advice seeking creates within the organization (Nguyen & Nguyen, 2023), the process of idea generation (conceptualization) is catalyzed. If top managers have established a pattern of seeking internal advice, other organizational members would be more willing to share their ideas, especially when those ideas are unconventional or when proposals diverge significantly from their existing job descriptions and functions. Prior studies have suggested that this consultative decision-making mode fosters a positive environment for the development of dynamic innovation capabilities (Soto-Añari & Pérez-López, 2024). Not seeking internal advice may preclude opportunities for potentially valuable initiatives originating within the organization. Secondly, top managers who seek input from other organizational members are better able to develop more feasible, rather than bold but unrealistic, service innovation strategies. Seeking internal advice makes top managers more aware of the firm's existing skills and capabilities, which may prove crucial to the implementation of innovation strategies. Trying to implement radical service diversification, for instance, may fail because top managers did not foresee a mismatch between the resources and competencies required to develop and market new services and those available (Bogers et al., 2019). Consulting functional specialists to conduct thorough analyses of new ideas and suggestions may provide useful feedback and criticism and highlight important details regarding the implementation phases of radically new service development projects or process improvements (Yang & Huang, 2023). Drawing on the preceding discussion and evidence, the following hypothesis is proposed.

H2: TMT internal advice seeking will be positively associated with dynamic service innovation capabilities

2.3 The Conceptual Framework

The conceptual framework, depicting the two hypothesized relationships, is presented in Figure 1.

Figure 1: The Conceptual Framework



Source: Compiled by the author

3. Research Methodology

This study, grounded in positivist philosophy and employing a quantitative approach, used a cross-sectional field survey to collect primary data. A questionnaire was developed from the published literature by adapting existing measurement scales reported in prior studies. Dynamic service innovation capabilities were operationalized using the 21 core processes and structures identified by Janssen et al. (2012), namely sensing user needs, sensing technological options, conceptualizing, co-producing and orchestrating, scaling and stretching, and learning and adapting, which underpin the survey items. TMT advice-seeking behaviour was measured using a multi-item scale adapted from McDonald and Westphal (2008), refined through expert review and pretesting, that captures the frequency and extent of advice sought regarding current and future strategy from both internal (within the organization) and external (other firms, R&D scientists, consultants) sources. Prior to using the questionnaire in the main survey, a pilot study was conducted. The purpose of the pilot study was to detect any errors and ambiguities in the measurement instrument to avoid confusion and misinterpretation. The scales were revised as necessary.

The unit of analysis was the top management team, and the study population consisted of all top management teams of service-dominant business organizations in six selected industries in Sri Lanka. In line with upper echelons literature, given the level at which they operate, the researcher expected respondents at this level to be well informed about innovations occurring across all areas of organizations. For this study, a TMT comprises the CEO and other executives, including vice presidents and members of the senior management team, who are responsible for strategic decision-making within the organization. Members of the Board responsible for strategic decision-making were also counted among the TMT. Organizations in six service dominant industries: finance (banking, insurance, investment funds, and other financial services), hotels and travel, professional business services, health care,

telecommunication, and information technology have been selected for the sample. Disproportionate stratified sampling was used in this study. A final sample of 260 responses was used for data analysis.

The collected data were then analyzed using two statistical software tools, i.e., SPSS and AMOS. The descriptive analysis of the survey presented the sample's demographic profile and item analysis. Exploratory factor analysis was performed to extract latent factors (constructs), which were then confirmed by confirmatory factor analysis. Finally, the hypothesized relationships between the constructs were examined by structural equation modeling. A two-step approach was adopted in SEM. In the first stage, the measurement model, using CFA, was tested to assess the reliability and validity of the constructs. In the second stage, a hypothesized structural model was assessed using path analysis to test the hypothesized causal relationships among the constructs proposed in the research model. The proposed research model was found to be valuable in explaining the role of the top management team in building dynamic innovation capabilities for service innovation and adequately fit the data.

4. Findings

4.1 Descriptive Statistics

Findings from this research indicated that, in the Sri Lankan context, women account for only 11.8% of top management positions in the entire sample. The TMT represented in the data of this research was diverse, with functional backgrounds in operations (36.31%), finance and accounting (21.88%), general management (18.15%), information technology (11.2%), marketing and sales (7.18%), and R&D (0.43%). These results indicate a poor representation of top managers in research and development within top management teams. The size of each firm's top management team was measured by the number of individuals in the top tiers of the firm's management. The average TMT size was 5 members, with a minimum of 2. Organizational age was operationalized as the number of years since the organization's founding. The logarithm of the number of full-time employees was included as a control variable in this research. The results indicated that the workforce ranged from 27 to 9000. The lowest was reported by a management consulting firm, while the highest was reported by a bank. The workforce was then categorized into 4 levels based on the EU (European Union) definition of business size by number of employees. Based on findings, forty-eight service firms (18.5%) are small businesses, and 119 firms (45.8%) are medium-sized organizations. Of the 260 service organizations, 71 (27.3%) are large organizations, and 22 business firms are classified as enterprises, representing 8.5% of the sample. However, the findings of this research indicated that the impact of organizational size (EM) on dynamic service innovation capabilities was not statistically significant ($\beta = .032$, C.R. = 0.594, $p = .553$).

4.2 Hypothesis Testing

The final modified model demonstrated a good fit to the data. Although the chi-square was significant, $\chi^2(1673) = 2977$, $p < .001$, this is expected in large samples (Bagozzi & Yi, 1988). Other fit indices indicate strong model fit: GFI = 0.931, AGFI = 0.902, IFI = 0.967, CFI = 0.967, TLI = 0.963, RMSEA = 0.044, and $\chi^2/df = 1.779$. Overall, these results suggest that the modified structural model fits the data well and provides a meaningful improvement over the original hypothesized model.

Based on the Standardized Estimates of the final structural model, the standardized regression weight and critical ratio for the relationship between TMT external Advice Seeking behaviour and Dynamic Service Innovation Capabilities were 0.583 and 5.876 ($P = .002$),

respectively, suggesting that this path is statistically significant at $p = .05$. The results provide strong support for hypothesis H1, which was proposed in the conceptual model. This indicates that the external advice-seeking behaviour of the top management team has a strong, significant effect on dynamic service innovation capabilities, implying that greater external advice seeking would positively influence the firm's dynamic innovation capabilities.

Moreover, the findings revealed that the standardized regression weight for internal advice seeking on the Dynamic Service Innovation Capabilities was 0.190, and the critical ratio was 3.059 ($P=.000$). This suggested that this path was statistically significant at the $p=.001$ level, providing strong support for the acceptance of hypothesis H2. These results also indicated that internal advice seeking has a strong and significant effect on the organization's dynamic service innovation capabilities, implying that increasing internal advice seeking by the top management team would positively influence the organization's dynamic innovation capabilities.

5. Discussion

The results indicate that Top Management Team (TMT) external advice seeking has a significantly positive effect on dynamic service innovation capabilities (DSIC). This suggests that the proactive acquisition of external perspective is a primary determinant of an organization's ability to innovate in the service sector. These findings align with foundational research (Bruni & Verona, 2009; Kinderström et al., 2009) and are supported by contemporary studies on digital service transformation.

The capability to sense customer needs and respond to rapid technological shifts is directly influenced by the breadth of a TMT's external network. While Bruni and Verona (2009) emphasized the importance of advice from lead users, scientific communities, and consultancies, recent evidence suggests that in the "Service 4.0" era, external advice is critical for overcoming path dependency. Modern research (e.g., Alexiev et al., 2020) highlights that external experts serve as a debiasing mechanism, preventing "groupthink" and enabling TMTs to identify disruptive opportunities that internal teams might overlook due to cognitive inertia. By creating institutional feedback loops and systems to capture external knowledge (Kinderström et al., 2009), firms build a deep knowledge base that facilitates the conceptualization of real service offerings that are recognized as valuable by the market (Hertog et al., 2010).

A critical component of DSIC is the ability to orchestrate and co-produce value within a network. As value creation increasingly occurs across providers, partners, and customers, seeking input from these stakeholders becomes essential (Kinderström et al., 2009). Recent perspectives on Open Innovation (Chesbrough, 2020) expand this by suggesting that TMTs who seek external advice are better positioned to act as "ecosystem hubs." This advice-seeking behaviour enables the firm to bundle offerings and synchronize service delivery across complex, multi-actor networks, which is a hallmark of modern dynamic capabilities.

External advisers with specialized knowledge significantly influence TMT cognition regarding new learning alliances and technology transfer (Kaplan et al., 2003). The more actively a manager seeks external counsel, the broader the array of opportunities to assimilate knowledge that is not yet resident within the TMT. Furthermore, external advice serves a vital socio-political function. Beyond spanning organizational boundaries, it provides strategic legitimacy (Alexiev et al., 2020). By citing external expert validation, TMTs can more effectively navigate internal resistance to the radical organizational changes that often

accompany service innovation, providing the necessary “political cover” to pivot resources toward new, unproven service models.

Moreover, in this study, it was hypothesized that TMT internal advice-seeking behaviour would have a significant positive effect on the dynamic service innovation capabilities. Prior research has empirically demonstrated a positive association between TMT internal advice seeking and dynamic service innovation capabilities. The result of this research is consistent with those of prior research.

In practice, service conceptualization is rarely the work of a solitary leader; it is the responsibility of multidisciplinary teams that bridge the gap between an initial idea and a viable offering. For a new service to succeed, it must be validated and understood by colleagues, middle management, and frontline staff. Recent evidence in Organizational Ambidexterity (Mom et al., 2019) suggests that TMTs who seek internal advice are better at balancing “exploration” (radical new ideas) with “exploitation” (refining existing services). By consulting internal stakeholders, managers create an institutional “climate of openness” where ideas can emerge from diverse, often overlooked settings within the organization.

The process of idea generation is catalyzed by the framework of trust that internal advice-seeking fosters (Inkpen & Choudhury, 2005). Modern scholarship on Psychological Safety (Newman et al., 2020) shows that when top managers establish a pattern of seeking advice, they lower the “social cost” of sharing unconventional ideas. Employees become more willing to propose innovations that diverge from their standard job descriptions because they perceive the TMT as receptive rather than dismissive. This consultative mode transforms the organization into a “sensing” organ, where frontline feedback on customer pain points flows directly into the strategic decision-making process.

Beyond idea generation, internal advice-seeking is crucial to the Reconfiguring stage of dynamic capabilities. Consulting with functional specialists—such as IT, operations, or HR—enables top managers to conduct a realistic inventory of the firm’s existing skills (Menon & Pfeffer, 2003). Studies on Knowledge Integration (Berraies, 2020) demonstrate that TMT internal advice-seeking reduces the “implementation gap.” When functional managers provide critical feedback during the early phases of a project, it highlights potential bottlenecks in developing radically new services or process improvements before significant resources are committed.

6. Conclusion, Implications, and Limitations

This research highlights the important role of Top Management Team (TMT) advice-seeking in building Dynamic Service Innovation Capabilities (DSIC) in service-based business organisations. By empirically validating the impact of both external and internal knowledge flows, the research indicates that innovation is not a product of isolated top-management decision-making but rather a result of deliberate boundary-spanning and internal harmonisation.

In terms of theoretical contribution, this research advances the Dynamic Capabilities view by positioning TMT advice-seeking behaviour as a bridge between environmental challenges and organizational response. It challenges traditional views of leadership by demonstrating that the “sensing” and “reconfiguring” phases of innovation are driven by specific consultative behaviours. Specifically, the study contributes to the literature by identifying external advice as a critical de-biasing tool that prevents organizational path dependency and by highlighting internal advice-seeking as the primary mechanism for building the psychological safety necessary for radical idea generation. This dual-pathway model offers

a more complex understanding of how knowledge flows are converted into competitive service offerings.

From a management standpoint, the findings provide practical guidance for leaders dealing with unpredictable service settings. To boost their company's innovation, managers should transition from a "command-and-control" approach to a "consultative-orchestration" strategy. This entails establishing formal external collaborations with a variety of experts to challenge internal assumptions and reduce groupthink. Simultaneously, leaders must understand that consulting internal frontline and functional specialists is not indicative of weakness but rather a strategic move to close the "implementation gap." By cultivating a culture that encourages unconventional ideas through TMT openness, managers can tap into hidden creativity at all levels of the organization, ensuring that new service ideas are both market-relevant and feasible to implement.

Despite these insights, several limitations remain and open avenues for future research. First, since this study is cross-sectional, it provides only a snapshot of current capabilities; however, dynamic capabilities are naturally evolutionary. Future longitudinal studies could examine how advice-seeking intensity varies across stages of a firm's lifecycle or during severe economic crises. Second, the focus here is on how often advice is sought, not on the quality of the advice or the TMT's "absorptive capacity"—their ability to understand and use the knowledge collected. Lastly, while the results are generally solid for the service sector, future research could examine how these patterns vary across "high-touch" industries such as hospitality and "high-tech" sectors such as FinTech, where reliance on technical versus customer-focused advice may differ significantly.

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