

Role of Absorptive Capacity Dominant Logic on the Performance of the Public Organization

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Abstract

In this study the performance of the public organizations is focused. The study is based on the intangible resources those have been used in the private sector organizations such as absorptive capacity and dominant logic. The performance of the organization is based on the information, knowledge, and prior experience. Through absorptive capacity and dominant logic, the organizations are able to enhance their performance. The study is conducted in the Hefei, Anhui, China which is one of the fastest growing city in the China. In the data collection process, the target group was the managerial level individual of the organizations. The data was collected through structured questionnaire adapted from the past literature. The questionnaire was translated into the Chinese language with the help of Chinese native and then translated into the English language to check the actual meaning of the questionnaire. Furthermore, to perform the data analysis process SPSS has been used. From the results it shows that absorptive capacity and dominant logic has significance impact on the organizations in the public sector and facilitates the organizations to get the superior performance. Moreover, the results also show that public organizations should adapt the techniques of the private organizations in order to improve their efficiency.

Keywords: Absorptive capacity, dominant logic, performance, public organizations

1. Introduction

In general terms, public organizations consist of governments and all publicly controlled or publicly funded enterprises, and other entities that deliver public programs, goods or services. In the prior research many attempts to define and structured public organizations (Roness, 2003; Thynne, 2003; Wettenhall, 2003). The tag as 'public sector organizations' mentions the public sector, rather than the private sector as the main factor of differentiation. Nevertheless, the trend of decentralization and empowerment, as well as changes in the dominant concept of the State led to circumstances where the public sector activities are more and more carried out in the area of overlap between the three sectors (public, private, nonprofit) (Renate E Meyer, 2015). The borderline of public- private is " more working areas wide enough task, instead of limits". A judicious mixture of the sector in the provision of public services, including contracts, outsourcing and public-private partnership (PPPs) is one of the goals of the creation of an enabling state. This complicated set of hybrids or intermediate kind of organizations Wettenhall, (2003: p.229) ironically calls "go-quango-nongo spectrum" this has, to in some extent, solved or less a blur of red, borders and opposes the easy route along the function. According to Wettenhall, (2003) this difficulty clearly shows the divergence between both the sectors public and private. The biggest problem of the public organizations is to develop a classification of public sector organizations. As the study is focused on the intangible resources that have been used in the private sector organizations to make critical decisions and locate a limited resource in such way the get future goals. These intangible resources help the organizations from different perspectives. For example, absorptive capacity helps the organization to acquire and assimilate that information and later on transform according to need of the organizations this information impact on the top management of the organizations and enhance their personal capabilities towards recognizing information in the environment that make critical decisions. This also helps the organization to learn more and enhances its performance.

2. Literature review and Hypotheses Development

2.1. Absorptive Capacity and Dominant Logic

Focusing on acquiring knowledge firms in all areas may more innovate from learning. It can effect exchanges with clients and customers, allow the management to select strategies, and handle resources which depend on external sources to ensure adaptive behavior maintain the flow of resources (Damanpour, 2009)). Through various forms of instruction, inculcation, and demonstration Organizational knowledge and faith are diffused to individuals. Practices, languages, and beliefs consist of the organizational code when an organization socializes recruits (Van Maanen, 1973). Similarly, the organizational code alters to individual beliefs. Individually and as a whole organization, this form of mutual learning has an influence on both of them (March 1991). Firms may brace up to the new combination of existing knowledge, which results in more numbers of possible knowledge configurations, and a greater innovation performance (Kogut, 1992). Moreover, business tasks and restoration exposure of new technologies and practices boost the firm's ACAP, and the ability to absorb external knowledge (Cohen, 1990), that is in the interest of innovation (Yang Chen, 2014).

For setting the firm's direction, TMT has been defined as the dominant coalition of individuals (Cyert and March 1963). Which has a positive impact on strategic decision making (Hambrick & Mason, 1984) and on organizational transformation? Managerial values and cognition have an important impact on the ability of organizations to adapt (TRIPSAS, 2000). Managers depend on simplified processes for information and have bounded logically (Simon, 1955). To adapt mental models they may have difficulty (Barr & Huff, 1992). Based on shared history for the organization, they often develop a system of beliefs or a "dominant logic" (Prahalad, 1986). This shared history for organizations in a transition economy is entwined with the administrative heritage of the processes, norms, and values associated with the socialist planned economy.

In the perspective of managerial cognition, managers are considered to be information workers who absorb, process and disseminate information about issues, opportunities and problems to others said by (Walsh, 1995). Theory of managerial cognition argued that top management grasps the information by their cognitive lenses. Therefore, managers can be considered as "cognizes"(Calori, 1994) who develop a mental map and reduce the complexity if things which in the result of dominant management logic (Betts, 1995). More diversity in a firm's activities enhances the comprehensiveness and complexity of the manager's mental map of the environment. The dominant logic directly influences the organizational form, learning processes and indirectly the level of absorptive capacity argued by (Van den Bosch, 1999).

For the last 30 years, the NPM focused on the managerial practices in the POs, which endorse organization's accountability, efficiency, resource management and service delivery (Hood, 1995). Promoters of this point of view argue that to improve the performance public managers should adapt the techniques of private organizations. For instance, clear as well as the standardized use of targeted performance, frontline workers and actual output measurement (Hoggett, 1996). To introduce new ideas NPM focus on the human service managerial role that involves an entrepreneurial role (Perez, 2016). Borins, the study of public organizations shows that innovation in public sector organizations are less depended on political or administrative influences and more depended on managerial operations either individual or collective with leading staff to improve and implement different approaches that can impact an organizational performance. From the above discussion, we can define that public sector should adapt the techniques from the private sector in terms of top management to improve the performance of the public organizations. From this, we can also drive our hypotheses that:

H1. Absorptive capacity is positively impact on dominant logic

2.2. Dominant Logic and Public Organization's Performance

Numerous public management studies show that there is the significant effect of managerial leadership over organizational change (Fernandez, 2007). For example, the study of Hennessey, (1998) shows the impact of top management on the outcomes of public sector organizations. Furthermore, the author mentions the effect of leadership on changes in culture, organizational climate as envisioned by the re-inventers, by these changes superior organizational performance can be achieved. Through dynamic capabilities of managers alter their resource base acquire an important resource, combine them together, and recombine them (Eisenhardt, 2000). They integrate sets of particular, identified processes that are commonly accepted "best practices" which might examine, compare and sometimes transfer from one organization to another organization. This dynamic capability activates and maintains inter-firm performance (Henderson, 1994). Latest theoretical studies focus on the development of managerial decisions as well as flexible strategic choices as important factors in the

development of capabilities (Adner, 2003). Connections concerning strategies and performance has received a huge interest from researchers and produced a regular set of findings (Branzei, 2006).

Depending upon the characteristics of environment and organization (Covin, 1990; Covin, 1990; Kelley, 2002), tremendous focus on the strategic choices Sandberg, (1986), also over time better constancy of these choices Freeser, (1990) develop survival chances of firms McCann, (1991), develop new venture growth, furthermore active advance market as well as financial performance (Schroeder, 2002). Some of the studies describe the relationship of strategies and performance that depend upon the resource-based capabilities Chandler, (1994), and fit between firms' strategies and their existing capabilities (Fingenbaum, 1991). The above discussion shows that top management is a key factor for firm's performance and that their dynamic capabilities have a positive effect on the development of the firms' performance.

Hence, from the above discussion its shows that dominant logic is very important not only for the private organizations but also for the public organizations to get better performance. And from this discussion we can describe that:

H2: Dominant logic is positively related to the organizational performance of the public organizations.

2.3. Mediating role of dominant logic between absorptive capacity and organizational performance

Dominant logic is one of the important elements of the organization. Different authors discuss dominant logic in different ways and reveal its significance with innovation and performance of the organization. For example, Héctor Montiel Campos, (2012) describe the mediating role of dominant logic between entrepreneurial orientation, and risk taking, aggressiveness and innovativeness. The authors argue that through dominant logic critical strategies are planned to get a better performance. Dominant logic develops with the passage of time and through past experience, directly impact on the organizational form (Dijksterhuis, 1999), and indirectly on the level of absorptive capacity (Van den Bosch et al., 1999). For instance, to management applying classical management logic Volberda, (1996) support traditional organization's structure and the environment is not under their consideration as a source of information to be absorbed (Van den Bosch, 1999). In this logic of classical management, managers represent organizations as tools to accomplish predefined objectives and ignore or reduce disruptions and opportunities to create connections to the wider environment (Scott, 1987). Thus, these managers will bind the level of absorptive capacity in the firm. Lenox, (2004) argue that managers directly influence on the firm's absorptive capacity for a new practice via providing information to adopters in the organization. The effectiveness of these managerial acts depends on other sources of knowledge available to the individuals. Prahalad and Bettis, (1986), suggest the linkage of dominant logic between diversity and performance and mention that top management of a diverse firm should not be considered as a faceless abstraction, but as a collection of key individuals, for example, dominant coalition who manage the firm. These individuals affect on the processing style of management, that in a result the key resource allocation choices (Donaldson and Lorsch, 1983). This discussion shows that dominant logic is very important for the organization as well as for the top management to enhance their abilities towards the performance of the organizations and personal skill to overcome on the treats and problems available within and out of the organization. From this discussion we can say that:

H3: Dominant logic has a positive mediating role between absorptive capacity and performance of the public organization.

3. Methodology

To test the model we conduct a survey in Hefei, Anhui, China and data was collected from the public organizations through structured questionnaire adapted from the past literature. However, the process of data collection is very difficult (Huang, Davison, Liu, & Gu, 2008). For this issue, we took a help of Chinese native for any expected difficulties. The target group for this study is the managerial level individuals, as they have more access to the information of the organizations and have better knowledge regarding their work environment.

4. Measures

The questionnaire that has been adopted from the literature is used to collect data. The questionnaire is paper-based and the details of the questionnaire are used in this survey and for further analysis. And those paper-based questionnaires were distributed to the employees to answer.

4.1. Absorptive Capacity

Absorptive capacity is a second-order construct which has four dimensions acquisition, assimilation, transformation, and exploitation. In which Acquisition is the main point of identifying new knowledge, that is essential for the operations; assimilation deals with the understanding of that knowledge which has been absorbed; transformation deals with the ability in which combine the existing and newly obtain knowledge; whereas exploitation deals with the ability to use that knowledge in the firm's objective (Liu, Ke, Wei, & Hua, 2013). To measure absorptive capacity seven Likert scales was used from lower = 1 to seven = 7

4.2. Dominant Logic

DL (dominant logic) including “mind-sets” (Nadkarni & Perez, 2007), “interconnected choices” Nicolaj Siggielkov, (2002), and “strategic frames” (Huff, 1982). The ability of a top management group (a group of key individuals), to manage a diversified firm is limited by the dominant general management logic(s) that they are used to. To measure the dominant logic seven Likert scales has been used from lower = 1 to higher = 7

4.3. Performance

The dependent variable of this study is performance. Performance measured in this study is on the basis of a well-established instrument developed by Van de Ven, (1980). This instrument designs especially for capturing performance in public organizations and has also been used by Verbeeten, (2008), Williams, (1980) in their studies to measure the performance. The dimensions of the performance include productivity, quality of work produced, the number of innovations, procedure improvements, or ideas, the standard for work excellence, attainment of production or service level aims, operations efficiency, and morale of personnel unit (Roland F. Spekle, and Verbeeten, 2013). For assessing Performance Roland F. Speklé, (2013) proposed seven factors including “The production efficiency of our company is much higher than average”. “The innovative management, operation procedure improving and new methods introducing of our company are much higher than average”. “The work efficiency of our company is much higher than average”. “The fighting wills of our company staff are much higher than average”. And for measuring these factor seven Likert Scale form lower=1 to higher= 7 is used.

5. Results

5.1. Correlation between Absorptive Capacity and Dominant Logic

Table 1.1 describes the correlation between absorptive capacity and dominant logic. Absorptive capacity is equal to .900** that is >0.001 , which means absorptive capacity is significantly and positively correlated to the dominant logic. On the basis of these results, we can accept the hypothesis that absorptive capacity is positively related to the dominant logic. (Damanpour, Walker, and Avellaneda (2009) argue that focusing on acquiring knowledge can facilitate the organization to be more innovative and affect on the customer's exchanges that allow the top management to make strategies and allocate resources and depends on the sources available externally to ensure adaptive behavior and sustain the flow of the resources. Simon, (1955) argue that top management relies on the procedures of information and have logically bounded. From the managerial cognition perspective Walsh, (1995) mention that managers are information workers who learn, transform information regarding problems, opportunities, and crisis.

5.2. Correlation between dominant logic and public organizational performance

Table 6.2 shows the correlation between dominant logic and organizational performance whereas, the coefficient value is .579 which shows that dominant logic is positively and significantly correlated with organizational performance. Fernandez, (2007) mention that numerous public management studies show that there is a positive influence of managerial leadership over organizational change. For instance, Hennessey, (1998) in his study shows the influence of top management on the outcomes of public sector organizations. In addition, the author suggests the effect of leadership on changes in culture, climates of the organization as envisioned by the re-inventers, by these changes superior organizational performance can be achieved.

5.3. Mediating Effect of Dominant Logic Between Absorptive Capacity and Organizational Performance

In this study dominant logic is playing a mediating role between absorptive capacity and dominant logic. To check the mediating role of dominant logic between absorptive capacity and dominant logic a regression analysis

is performed in Table 6.4 Model3 On the basis of these empirical results absorptive capacity ($\beta_{ACAP} = 0.050$), dominant logic ($\beta_{DL} = 0.199$), whereas, R^2 is equal to .338, adjusted R^2 is equal to .334, and constantly is equal to 2.956. That means that absorptive capacity has an insignificant effect on organizational performance and by the role of dominant logic absorptive capacity and dominant logic enhance the performance of the organization. That supports our third hypothesis H3 that dominant logic is playing a positive mediating role between absorptive capacity and organizational performance.

6. Discussion

This study focus on the organizational learning in the public organizations From prior research it has been cleared that public organizations are not well educated as compare to private organizations. Their level of learning and search for information are far behind than private sector organizations due to different reasons such as lacking resources. From organizational learning literature, it is also clear that public organizations are often a lack of information. This lacking information impacts on the organization from a different angle and lower the performance of the organizations. The results suggest that absorptive capacity is the key element of the knowledge processes within the organization. The absorptive capacity of the organization not only describes the acquisition of new knowledge but also how they leverage existing routines to internalize new knowledge. Absorptive capacity and the four dimensions acquisition, assimilation, transformation, and suggest exploitation by Zahra, (2002) has numerous impacts on the private sector organization. This study reveals that absorptive capacity can also show its significance on the public organizations through knowledge.

Another element dominant logic uses this information and enhances the abilities of the managers by using that knowledge in a useful way and make critical decisions. Once data has been absorbing from the environment that knowledge then processes by the dominant logic and useful data is selected for the organizational processes. Dimensions of the dominant logic describe the abilities of the manager from vision to routines process in which different step involves such as, external orientation, proactiveness, learning, and routines. Dominant logic helps the managers to look beyond the box and use their abilities to think different and in a creative way to solve problems and get superior performance. Dominant logic brings innovation in top management by improving their vision and problem-solving abilities. If top management of the public organizations wants to be more innovative they need to adopt this entrepreneurial technique.

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Appendix

Table 1.1. Descriptive Statistics of absorptive capacity and Dominant Logic

	Mean	Std. Deviation	N
ACAP	7.4374	2.50178	295
DL	7.3944	2.08622	295

Table 1.2. Correlation between absorptive capacity and dominant logic

		ACAP	DL
ACAP	Pearson Correlation	1	.900**
	Sig. (2-tailed)		.000
	N	295	295
DL	Pearson Correlation	.900**	1
	Sig. (2-tailed)	.000	
	N	295	295

** . Correlation is significant at the 0.01 level (2-tailed).

Table 1.3. Descriptive Statistics of DL and PO Performance

	Mean	Std. Deviation	N
DL	7.3944	2.08622	295
PER	4.7963	.91078	295

Table 1.4. Correlations between Dominant Logic and Organizational Performance

		DL	PER
DL	Pearson Correlation	1	.579**
	Sig. (2-tailed)		.000
	N	295	295
PER	Pearson Correlation	.579**	1
	Sig. (2-tailed)	.000	
	N	295	295

***.* Correlation is significant at the 0.01 level (2-tailed). N = Number of Respondents,
 Dependent Variable = Firm Performance (PER), Independent Variable = Dominant Logic (DL)

1.5. Regression Analysis of Mediating effect of Dominant Logic between Absorptive Capacity and Performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.582 ^a	.338	.334	.74341

a. Predictors: (Constant), DL, ACAP

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	82.500	2	41.250	74.639	.000 ^b
	Residual	161.377	292	.553		
	Total	243.877	294			

a. Dependent Variable: PER

b. Predictors: (Constant), DL, ACAP

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.956	.161		18.344	.000
	ACAP	.050	.040	.137	1.251	.212
	DL	.199	.048	.455	4.159	.000

a. Dependent Variable: PER